REGULATORY FRAMEWORK ANNEX

ED3-S20

CONTENTS PAGE

1. **Regulatory framework overview** 3
2. **Regulatory Outputs** 4
   - 2.1 ED3 Requirements 4
3. **Managing Uncertainty** 6
   - 3.1 Re-openers 7
   - 3.2 LRE Agile contingency pot 13
   - 3.3 Volume Drivers 13
   - 3.4 UIOLI Allowances 14
4. **Incentivising Performance** 15
   - 4.1 Holistic Incentive Package 15
   - 4.2 Output Delivery Incentives (ODI) 15
   - 4.3 Totex Incentive Mechanism 20
5. **Business Plan Incentive** 22
   - 5.1 Strategic Spares / Joint Procurement & Supporting Our Local Supply Chain 22
   - 5.2 SDP+ for GSps and Investment Driver to 2050 23
   - 5.3 Enhanced Storm Support 23
6. **Conclusion** 24

1. REGULATORY FRAMEWORK OVERVIEW

A stable and predictable regulatory framework is crucial for investors and consumers. A well-designed framework supports long-term investments, drives network performance improvements, secures better consumer outcomes, and delivers efficiency. As we move into ED3, the framework must evolve to enable accelerated network investment and navigate delivery challenges, whilst ensuring value for money for consumers and fair return for investors committing to long-term investment in the UK Energy System

Our ED3 plan is predicated on the right regulatory framework to enable accelerated delivery and to balance risk and reward for consumers and companies. The Regulatory Framework has three key components that are critical for the successful delivery of the ED3 price control: Regulatory Outputs, Managing Uncertainty and Incentivising Performance, as explained in Table 1.1.

Table 1.1 Components of the Regulatory Framework

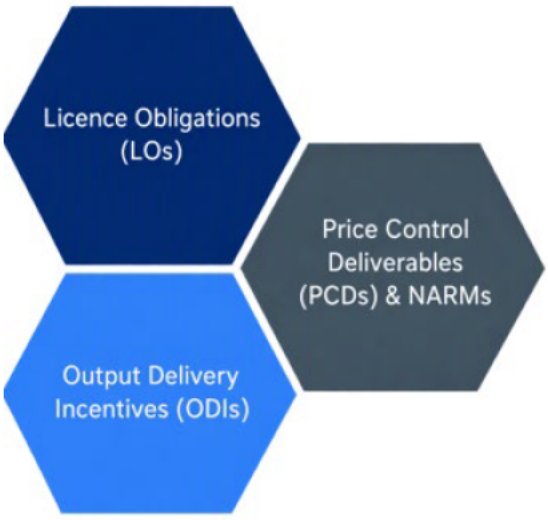
1. Regulatory Outputs	Proportionate output framework balances accountability, value, delivery and flexibility. • Regulatory outputs (PCDs, NARM PCD and LIRM PCD) provide clear accountability for delivery while allowing DNOs flexibility in how agreed outcomes are achieved. • Project-specific or portfolio PCDs are focused on high-value, complex projects/portfolios. • The NARM PCD continues to capture non-load delivery, alongside the introduction of the LIRM PCD for Load investment. • Wider Price Control Performance and Delivery transparently reported via RRP Consumer protection maintained through PCDs/output metrics covering a large portion of ED3 Totex
2. Managing Uncertainty	A fast and flexible Uncertainty Mechanism (UM) framework that enables us to deliver the network needed for 2033 and beyond, while reacting to known unknowns in the operation of our networks that may materialise within the period. Our approach to establish the required UM framework is summarised below: • Refine and recalibrate design of existing RIIO-ED2 Re-openers and Volume Drivers • Bespoke Island Re-opener proposal (consolidating four existing RIIO-ED2 islands related re-openers) to address wide range of uncertainties that cover resilience, major subsea cable interventions, island generation requirements and growth. • Common UM proposal covering LCT Rollout • Improved process to ensure timely decisions and avoid delays to projects.
3. Incentivising Performance	The ED3 incentive package (ODIs and TIM) should be considered holistically within the wider regulatory framework, as interactions between mechanisms can influence deliverability, ODI effectiveness and reward levels. Over-use of ODIs would inevitably limit fungibility across the price control and push up overall costs. • ODI calibration proposals are based on the ODIs that are set out in Ofgem's Sector Specific Methodology Decision (SSMD) for ED3 and we are not proposing any further ODIs. • A lower TIM is needed in ED3 to maintain a proportionate balance between efficiency incentives and the increased delivery and cost risks; we therefore propose a stepped 25%/10% sharing factor. • It is important to note that with the SSMD being unusually open, the ED3 framework is still under development with Ofgem. All proposals are based on these current assumptions. Should the final positions taken by Ofgem change from these assumptions, our position may also change as the framework is finalised.

2. REGULATORY OUTPUTS

Regulatory Outputs are a fundamental component of ED3, providing a clear mechanism through which Distribution Network Operators (DNOs) are held accountable for delivering the outcomes that customers and stakeholders value most.

At the same time, the regulatory regime must recognise that customer needs, policy priorities and system requirements evolve over time. As such, Regulatory Outputs should be designed to maintain accountability for delivery while providing sufficient flexibility for DNOs to adapt their investment plans and delivery approaches in response to changing circumstances.

Figure 2.1 Regulatory Outputs



Licence Obligations (LOs): Minimum standards of performance. Failure to meet these standards could lead to enforcement action and/or penalties.

Price Control Deliverables (PCDs) & Output Metrics: Outputs directly funded through base expenditure allowance. We are committed to protecting our customers should the set outputs not emerge.

Output Delivery Incentives (ODIs): These encourage improvement in network service and are not funded through the base expenditure allowances. We can be exposed to both rewards and penalties.

2.1 ED3 REQUIREMENTS

2.1.1 PROPORTIONATE REGULATORY OUTPUTS

To avoid adding unnecessary complexity within the ED3 framework, a proportionate approach to Regulatory Outputs is required. This means targeting more detailed output requirements, such as PCDs, where they provide clear value in managing delivery risk and protecting consumers, while using more flexible mechanisms for lower-value or less complex activity. A proportionate framework must balance accountability with flexibility, ensuring the regulatory framework supports DNOs with delivering outcomes, without creating unnecessary reporting, compliance or governance requirements that could slow delivery.

2.1.2 OUR APPROACH TO DEFINING PCDS

Our approach to setting Price Control Deliverables (PCDs) has been designed to ensure a proportionate level of regulatory oversight, focusing PCDs on investments where the value, complexity, delivery risk or stakeholder importance warrants a clearly defined deliverable. This avoids applying project-specific PCDs unnecessarily, **while ensuring appropriate accountability** for material or strategically important investment and avoiding incentivising non-delivery of capital.

In determining where PCDs should apply, we used three key criteria:

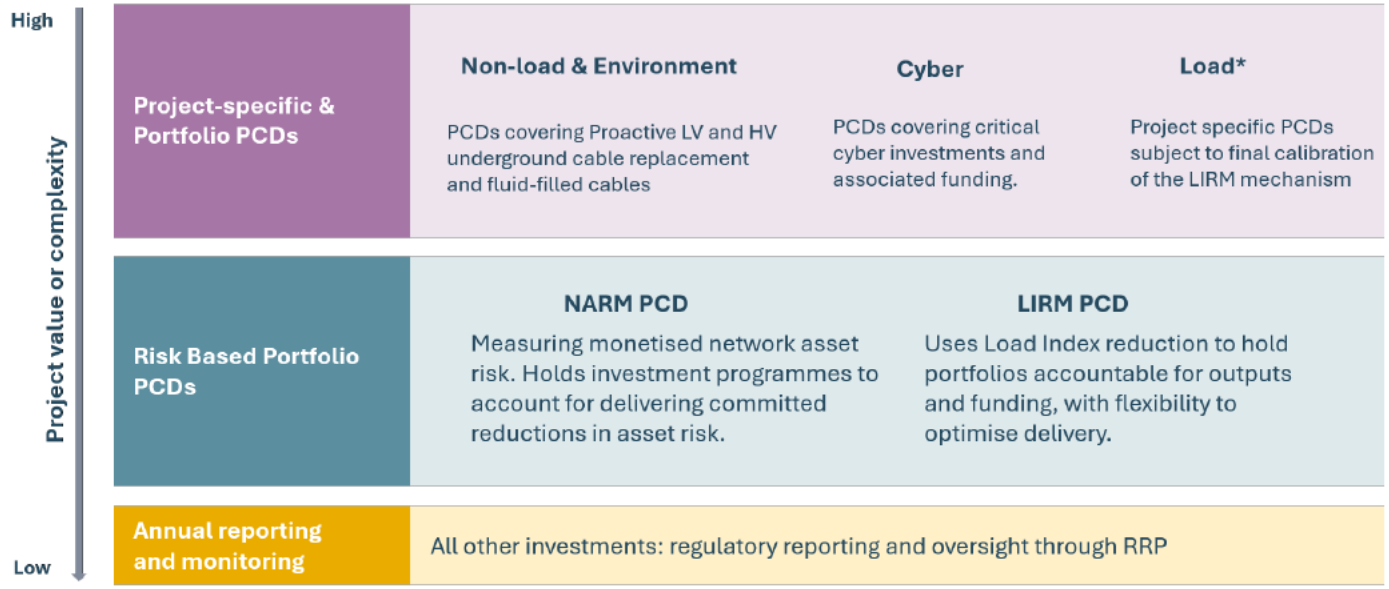
1. **Materiality**: We applied a £36 million threshold[1] against our Load and Non-Load investments, not already covered by NARM or potentially LIRM, to identify projects where a PCD may be applicable. This threshold approach ensures that only investments of material value are subject to project-specific or portfolio PCDs.
2. **Complexity and deliverability**: We considered projects and portfolios where delivery complexity or risk was greater, applying a PCD where additional regulatory clarity and accountability over the expected deliverable was considered appropriate.
3. **Customer and stakeholder importance:** We identified investments that are particularly important to customers and wider stakeholders, where establishing a PCD provides clear visibility and assurance around the outcomes we have committed to deliver.

Collectively, this approach provides a targeted and proportionate PCD framework, balancing appropriate regulatory assurance with the need to avoid disproportionate reporting and compliance requirements. Applying these criteria has resulted in a proportionate mix of project-specific and portfolio-level PCDs across Non-Load (Non-NARM) and Environmental investment, alongside specific Cyber PCDs.

We have not assigned PCDs to Load-related investment at this stage. Instead, we propose to consider the appropriate application of PCDs for Load investment following further development of the Load Index Risk Metric (LIRM) mechanism, ensuring that the two elements of the regulatory framework are appropriately aligned.

This approach also complements and supports the existing NARM PCD established under RIIO-ED2, providing an overall framework in which PCDs are targeted towards areas where specific delivery commitments and regulatory assurance are most appropriate. The figure below provides further detail on the resulting PCD framework and how PCDs have been applied across the different areas of investment.

Figure 2.2 Application of PCD Framework



2.1.3 OUR PRICE CONTROL DELIVERABLES

The following section sets out our proposed ED3 PCDs in greater detail and how these support our overarching Business Plan commitments as set out in (ED3-BP01) Business Plan Main Document. Table 2.1 below summarises

[1] Based on the HVP threshold of £25m in ED1 adjusted for inflation

each proposed regulatory deliverable, providing a clear view of the outputs we intend to commit to and how these will support transparent and proportionate regulatory oversight throughout the price control.

Table 2.1 Regulatory Deliverables

Business Plan Commitment	Project/Portfolio	Cost £m	Output
More resilient networks for customers	**NARM PCD**	[redacted]	Continuation of the Risk Based PCD for delivery of NARM assets
	Fluid Filled Cable Replacement (Non-NARM)	[redacted]	Proactively replace Fluid Filled Underground Cable across our SHEPD and SEPD network areas through a mechanistic PCD.
	LV Underground Cable Replacement	[redacted]	Proactively replace Low Voltage Underground Cable across our SHEPD and SEPD network areas
	HV Underground Cable Replacement	[redacted]	Proactively replace High Voltage Underground Cable across our SHEPD and SEPD network areas
Investing for the Energy Transition	**LIRM PCD**	[redacted]	LIRM Delta to be determined by Final Determinations
	Project Specific Load PCDs will be established once LIRM PCD outputs are developed at set.		

We will continue to work with Ofgem to develop and refine the design of the PCDs, and whether additional PCDs are required, as the ED3 framework progresses through Draft Determination and Licence Drafting.

2.1.4 LOAD INDEX RISK METRIC PROPOSAL

Load Index Risk Metric

The Load Index Risk Mechanism (LIRM) would provide the primary portfolio-level output for load-related expenditure in ED3. Building on the RIIO-ED1 approach, it would measure the change in capacity-related risk across higher-voltage substations by comparing forecast peak demand with firm network capacity. At closeout, actual risk reduction would be reconciled against the baseline funded through the settlement, holding DNOs accountable for the capacity risk removed rather than delivery of a fixed programme of schemes.

We support the use of LIRM as the principal output mechanism for primary load-related reinforcement. It offers a proportionate balance between consumer protection and the flexibility required to respond to changes in demand, network configuration and the availability of flexibility solutions. It should also enable efficient over- or under-delivery to be recognised where this reflects genuine changes in need and demonstrable consumer value.

However, the detail is not set here; key components of the mechanism need to be developed ahead of Draft Determinations. These include the methodology for setting the baseline risk target and unit cost of risk, treatment of non-intervention risk changes and crossover projects, arrangements for flexibility substitution, the operation of any deadband, and the closeout process for determining justified funding adjustments.

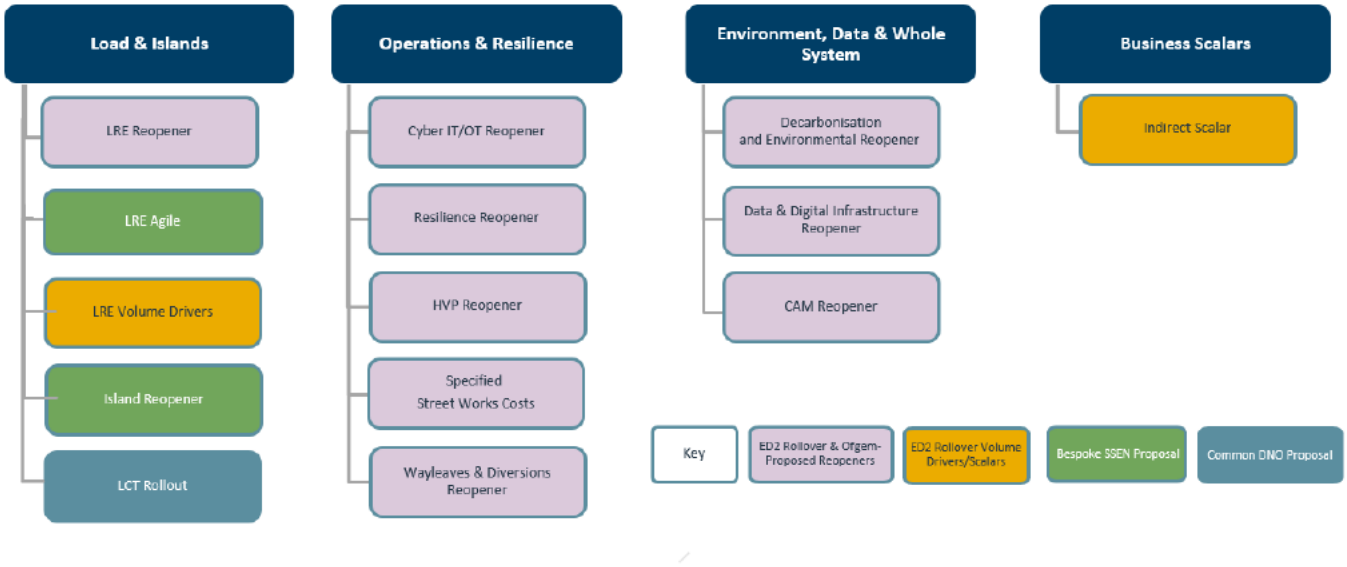
3. MANAGING UNCERTAINTY

Uncertainty Mechanisms (UMs) in a regulatory framework offer several benefits, particularly in managing events outside of a company's control. These mechanisms allow for controlled changes to allowed revenues during the price control period, ensuring that consumers only pay for necessary investments and the outputs delivered. This approach

mitigates risks associated with uncertain needs, costs, and scopes, providing flexibility and adaptability in response to changing circumstances.

We set out below a summary of the Uncertainty Mechanism framework we believe is required for ED3. This does not include Use it or Lose it (UIOLI) allowances which we cover separately later in the document. All cost and exposure values presented in this section are based on our proposed Final Business Plan. These figures remain subject to change following Ofgem's assessment and should be updated where elements of the plan are challenged, not approved or awarded a lower level of funding.

Figure 3.1 Summary of Proposed ED3 UM Framework



3.1 RE-OPENERS

3.1.1 RE-OPENER DESIGN

We propose the following design principles for re-openers in ED3:

- **Target genuine uncertainty only:** Re-openers should be used only where there is genuine uncertainty in terms of the need, timing, scope or cost.
- **Support timely delivery:** The re-opener process should be streamlined, with decisions made in a timely manner to avoid any blockers to project progress. This is particularly important for larger, more complex projects. We propose that GEMA should have a maximum 4 months to determine UMs.

3.1.2 APPROPRIATE MATERIALITY THRESHOLD

We recognise that a materiality threshold remains appropriate for most re-openers but do not consider that carrying forward the RIIO-ED2 threshold of 0.5% of base revenue would provide a proportionate outcome in ED3. **We propose an alternative of 0.25% of base revenue.**

Our ED3 investment programme is materially larger than in RIIO-ED2, particularly because of increased load-related investment. This increases the base revenue against which materiality is assessed, meaning that retaining a 0.5% threshold would increase the expenditure required to qualify for re-opener funding. An unchanged percentage would therefore make access more restrictive in monetary terms, rather than maintain the RIIO-ED2 position.

At the same time, a greater proportion of ED3 funding is linked to specific outputs, deliverables and restricted allowances, reducing flexibility to accommodate unforeseen requirements. A larger overall settlement may therefore not provide greater scope to fund new obligations from existing allowances. This should be reflected in the calibration of materiality thresholds, supporting delivery of both new requirements and existing commitments.

We therefore propose that the standard ED3 materiality threshold is 0.25%. This would retain a proportionate filter for re-opener applications without increasing DNO exposure simply because the investment programme has grown.

Separately, no materiality threshold should apply to the Cyber, Digitalisation, Resilience, and Decarbonisation and Environmental Policy re-openers. Changes in legislation, government policy, regulatory standards and security requirements can create mandatory obligations that DNOs must implement within prescribed timescales. DNOs have no discretion over whether to comply, and the associated expenditure may need to be incurred at pace. Although individual projects may be lower in value, the costs can still be material. Applying a threshold would require DNOs to absorb efficiently incurred expenditure necessary to meet these obligations or could constrain their ability to implement required changes promptly. Funding should therefore be available from the first pound of efficient expenditure once the relevant re-opener trigger and evidential requirements have been met.

3.1.3 CONTINUATION OF RIIO-ED2 RE-OPENERS

We agree with Ofgem's proposed ED3 re-opener package, including the introduction of the new Resilience re-opener. Most mechanisms are a continuation or consolidation of RIIO-ED2 arrangements, with refinements required to ensure they remain effective in supporting delivery during ED3. However, the re-opener process must be streamlined, with clear timescales for Ofgem decision making both for the Draft Determination and Final Determination stages to ensure that we are not constrained in delivery.

3.1.4 PROPOSAL FOR NEW AND BESPOKE ED3 RE-OPENERS

Alongside the re-openers proposed by Ofgem, we propose two additional re-openers for ED3:

- an SSEN Distribution bespoke Islands Re-opener (consolidating three RIIO-ED2 mechanisms); and
- a common DNO Role in LCT Re-opener.

Further detail on both proposed re-openers is provided below.

Islands Re-opener proposal (Bespoke)
In RIIO-ED2 we had three separate re-openers relating to islands costs. In line with the principle of rationalising the number of re-openers, we propose one overarching Islands Re-opener to ensure a suitable and efficient approach in ED3.

We are the only DNO which has multiple island groups within our network areas. This brings a unique challenge of how we procure, operate and maintain secure, resilient and compliant island networks. We must provide a high-quality Distribution network to support these island communities with reliable energy supporting decarbonisation and economic growth, growth opportunities for renewables and LCTs, and to ensure ongoing compliance with changing environmental legislation regarding the use of Diesel Embedded Generation (DEG). See (ED3-S17) Islands Strategy for details of our plans for the Islands in ED3.

We require a bespoke re-opener to allow us to address uncertainties across different elements of our investment for the islands, including future resilience and compliance and the management of subsea cable faults

There are three different elements to the Islands Re-opener proposal as set out in more detail below.

1) **Future resilience, demand and compliance**

Expected: [redacted]

Associated ex ante funding: [redacted]

Purpose: This element covers investment that is required to secure islands groups to N-2 resilience, to secure future system needs out to 2050 and to reduce reliance on diesel generation. For projects where the need, scope and cost are sufficiently mature, we have included an ex-ante funding request in our Islands Strategy. However, where the need is currently clear but further cost development and assessment of alternative solutions is required to determine the most efficient solution, we propose to use the Islands Re-opener. This will allow us to fully develop available options, determine the most suitable solution and secure more certain costs from the market prior to requesting funding. The optimal solution may include subsea cable installation, third-party flexibility solutions (with associated control functionality), replanting of Diesel Embedded Generation (DEG), or a combination of these to maintain resilience and ensure ongoing compliance. For the avoidance of doubt the Islands Re-opener will capture all islands groups including Shetland and the Isle of Wight.

In line with decisions made under the HOWSUM Re-opener in RIIO-ED2[2][3][4], this re-opener would also be used to capture additional unexpected DEG operational costs (fuel, maintenance, and engine replacement) costs such as those arising through unplanned scenarios such as Distribution or Transmission outages that we were not aware of at the time of our Business Plan submission, and planned DEG operational costs where these form part of our wider solution for an island group. This would include additional costs for Shetland if we are required to run Lerwick Power Station more frequently than expected[5].

NB: We are considering how Price Adjustment Mechanisms (PAMs) links to the RPE proposals to ensure the associated risk is covered.

2) **ED4 Development Funding**

Expected value: [redacted]

Recognising that our long-term Islands strategy extends beyond ED3, we are including an indicative uncertainty mechanism ED4 development cost of £40m. This will support the early development activities for the next phase of works that will be required in the ED4 period and will be requested through the Islands Re-opener.

3) **Subsea cable faults (high impact, low probability)**

Expected value: [redacted]

Associated ex ante funding: [redacted]

Purpose: Within our business plan we have requested ex ante funding for costs associated with subsea cable faults. Whilst we do not have certainty of when and which cables will fail, we will use this ex-ante allowance to manage subsea cable repair costs across our portfolio. There are some cases where a subsea cable fault will trigger significantly higher costs, particularly where a higher value cable requires end-to-end replacement. Failure is unlikely due to the recent installation of the majority of these higher value cables. Given the low likelihood but high impact of these events, it would not be appropriate to include this in our baseline allowance and we therefore propose to use the Islands Re-opener to recover costs associated with a subsea cable fault that triggers costs in excess of the materiality threshold. It is possible that operating DEG may also be a reasonable interim solution while managing reactive submarine cable repair or replacement – the mechanism should also allow for these costs.

Materiality threshold for Islands Re-opener

[2] Ofgem Re-opener Application 2025 Final Determination
[3] Reference letter dated 2-Feb 2023 between SSEN and Ofgem on 'ED2 Final Determinations – Treatment of Subsea Cables' (incl. HOWSUM)
[4] RIIO-2 Re-opener Applications 2025 Final Determinations – ED Annex, paragraphs 3.37 to 3.40.
[5] Note that we propose to continue with the RIIO-ED2 arrangement for Shetland Extension Variable Energy Costs, which provides for the passthrough of costs associated with fuel for Lerwick Power Station and environmental permits.

We propose a standard materiality threshold of 0.25% Base Revenue, as set out above.

We propose that re-opener windows are set annually in April of each year in ED3 including 2028.

Annual windows may be used to submit staged pieces of work for large, complex projects. For example, the needs case and requests for development costs may be submitted separately to the final proposed costs. This aligns more closely with the natural development of large-scale projects and Transmission regulatory mechanisms (e.g. ASTI), and is appropriate given the scale, complexity and duration of these types of projects.

DNO role in LCT re-opener proposal (common)
Purpose: There remains significant policy uncertainty with regards to the extent of the role that DNOs will be required to carry out in the rollout of LCT and Energy Efficiency in ED3, with a further Ofgem consultation and pilots expected. ***We are proactively undertaking pilots in RIIO-ED2 to help inform this policy development.*** The potential costs in this area are highly uncertain until a policy decision is made. On that basis, we propose a new DNO Role in LCT Re-opener in ED3 to allow funding for DNOs in the event that a policy decision is made that results in significant additional costs. For example, the option of DNOs being involved more directly in the installation of LCTs in customers' homes has been considered as part of the initial consultation on this topic. Should DNOs be required to undertake a more involved role in LCT delivery, there is the potential for significant additional costs. See (ED3-S08) DNO Role in Low Carbon Technology and Energy Efficiency Rollout for details on our proposals in this area.

Expected range: Dependent on Ofgem / Government decision on role.

Associated ex ante funding: Minimal - four additional FTE (C9 – Core CAI) and links to some data improvements under (DSO-10) DSO Strategy and (ED3-S13) Data & Digitalisation Annex.

Proposed window: April 2029. This will allow for our pilots to have been completed and aligns with when we could reasonably expect a policy update or decision from Ofgem / DESNZ.

3.1.5 SUMMARY OF PROPOSED ED3 RE-OPENER PACKAGE

We consolidated our full proposed ED3 re-opener package in Table 3.1 below. We made a distinction between mechanisms continued from RIIO-ED2, mechanisms requiring a revised design, and new common or bespoke proposals. We have also included key points on the design as well as potential materiality.

Table 3.1 Proposed ED3 Re-opener Package

Re-opener	ED3 status	Proposed trigger	Exposure	Re-opener Design
LRE	Continuation	Materiality threshold	[redacted] [redacted] This excludes Agile Funding	Retain existing design, with potential for more expenditure to be captured. Further decision required on how to shape load totex – volume treatment still under discussion. Values also include the sensitivities to heat pump roll out.
CAM	Continuation	Not triggered to date, unlikely to have material exposure		
Digitalisation	Continuation	Changes in legislation with materiality threshold removed	Likely to trigger if requirements change	Must apply from the Final Business Plan submission, not the beginning of ED3
Cyber	Continuation	Authority triggered only		
Decarbonisation & Environmental Policy	Continuation – revised design	Changes in legislation with materiality threshold removed	Likely to trigger if requirements change	Must apply from the Final Business Plan submission, not the beginning of ED3
Resilience	New - common	Changes in legislation with materiality threshold removed	Likely to trigger if requirements change	Must apply from the Final Business Plan submission, not the beginning of ED3
HVP (non-load)	Continuation	No HVPs currently proposed		
Specific streetworks costs	Continuation	Changes in legislation, permit schemes, highway authority requirements with materiality threshold removed where cost is a result of legislative change	Likely to trigger if requirements change	Low likelihood to trigger if costs arise from non-legislative changes due to higher ED3 materiality threshold

Wayleaves & diversions	Continuation	Third-party or statutory changes	Not triggered in ED2	High impact, low probability, driven by third party activities
Islands	New SSEN bespoke, consolidating ED2 mechanisms	Materiality threshold	[redacted]	Single overarching mechanism with annual submission windows.
DNO Role in LCT	New common	Materiality dependent on the policy decision	Trigger dependent on Ofgem's decision	Funding provided only once the future DNO role and associated efficient costs are sufficiently clear.

3.2 LRE AGILE CONTINGENCY POT

We propose a £196m Agile Contingency Pot alongside our baseline ex-ante allowances. The Agile Contingency Pot would provide a pre-approved source of in-period funding where load-related needs or timing cannot be confirmed at the start of ED3. The pot would support additional reductions in load-related risk beyond the baseline, operate in place of traditional re-openers where appropriate, and be capped at a £196m notional value to limit total over-delivery.

Further information on this mechanism is provided as part of (ED3-S01) Load Related Expenditure Annex.

3.3 VOLUME DRIVERS

Volume drivers are an important part of the ED3 framework because they allow funding to flex where the need for activity is clear, but the volume required is uncertain and largely outside DNO control. They are particularly relevant for load-related activity driven by LCT uptake, connections demand and wider electrification, where baseline forecasts may change materially during the period.

We support retaining volume drivers where there is a clear, measurable activity and a robust unit rate can be set. This protects consumers from funding volumes that do not materialise, while ensuring DNOs can respond quickly where demand exceeds baseline assumptions. However, ED3 volume drivers must be calibrated to reflect forward-looking costs, regional delivery factors and the more complex delivery environment expected in ED3. There should also be a formal review point in Year 3 to ensure the unit rates remain appropriate and reflect the efficient cost of delivering the work. Where activity is too variable for a single unit rate, we should consider alternative or hybrid funding approaches to ensure risk is shared appropriately.

Table 3.2 Volume Driver Proposals

Volume driver	Existing or new	Exposure	Detail
LV Reinforcement Volume Driver (LV services volume driver)	Existing	£9m	In ED2, the unit rate was problematic as the methodology did not reflect delivery costs and subsequent market price increases. In Year 3 Ofgem updated the unit rate for years 4 and 5, but this was not backdated. For ED3 we support retaining the reactive unlooping, cut-outs and fuse upgrades volume driver but with a fully cost-reflective unit rate and a formal review point in year 3. Where the review identifies that the original unit rate was materially incorrect, the revised rate should apply across the full price control period, including to efficiently delivered activity completed before the review. Applying corrections only prospectively would leave DNOs underfunded for work already undertaken on the basis of an inaccurate forecast unit rate. Proactive unlooping moved to UIOLI.
Secondary reinforcement Volume Driver	Existing	£255m	We support retaining the mechanism, however, there should be a formal review point in year 3 to ensure the unit rate remains appropriate and reflects the efficient cost of delivering the work. Where the review identifies that the original unit rate was materially incorrect, the revised rate should apply across the full price control period, including to efficiently delivered activity completed before the review. Applying corrections only prospectively would leave DNOs underfunded for work already undertaken on the basis of an inaccurate forecast unit rate. This will address the issue experienced in ED2 with LV unit rates,

			which in principle could affect the secondary reinforcement supply chain market.
Indirects scaler	Existing	10.8% uplift	We support retaining this mechanism at the ED2 coefficient. This provides additional funding for closely associated indirect (CAI) costs that increase when load-related investment increases through UMs (LRE, Island and LCT rollout re-openers, contingent funding mechanisms, volume drivers and proactive unlooping UIOLI) or non-load / resilience investment is awarded (e.g. refer to precedent for Storm Arwen funding).

3.4 UIOLI ALLOWANCES

Use It or Lose It (UIOLI) allowances should be used where the need is credible, but timing, scope or uptake remains uncertain. We propose the following UIOLI allowances in ED3.

Table 3.3 Proposed UIOLI Allowances

UIOLI category	Existing or new	Amount	Detail
Worst Served Customers[6]	Existing	£53m	Funding for targeted interventions to improve reliability for customers served by the poorest-performing parts of the network.
Visual amenity[7]	Existing	£12m	Undergrounding in Areas of Outstanding Natural Beauty expanded to include nature-based solutions where appropriate. Only includes schemes proposed by stakeholders.
Proactive unlooping[8]	New	£77m	Fund potentially also to be used for 'virtual unlooping' if ED2 pilot is extended to BAU. It must include a mechanism to review the cap if this is at risk of being reached before the end of ED3 (e.g. if market-driven unit rate increases or higher volumes delivered).
Rising Lateral Mains[9]	New	£7m	This UIOLI supports out wider inspection-led RLM strategy. Separate funding covers the planned inspections programme to establish ownership and condition of assets, while the UIOLI funds urgent maintenance and remediation identified through inspections.
Cyber[10]	New	£28m	UIOLI amount capped at 20% of total ask. Focused where we know the risk, the driver and possible solution. The uncertainty is around the design and/or specification of the scheme.
Reliability[6]	New	£25m	Funding for targeted interventions to improve reliability for customers most affected by short-duration and multiple interruptions.

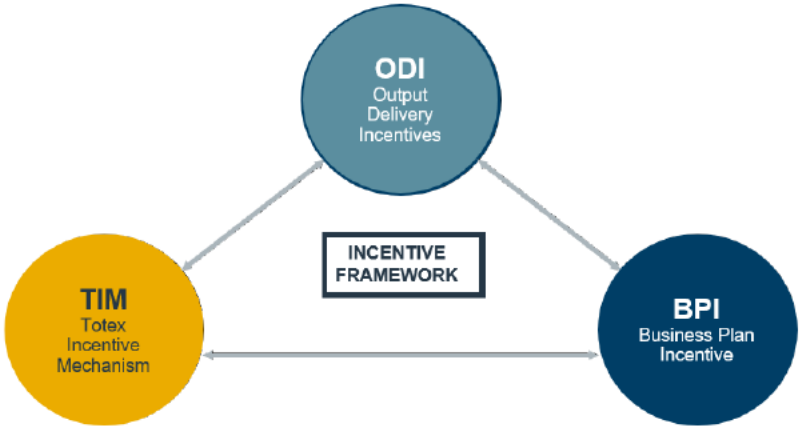
[6] Details in (ED3-S04) Reliability Strategy
[7] Details in (ED3-S14) Environmental Action Plan
[8] Details in (ED3-S01) Load Related Expenditure Annex
[9] Details in (ED3-S12) Network Asset Management Strategy
[10] Details in (ED3-S15) Cyber Resilience Overview Document

4. INCENTIVISING PERFORMANCE

4.1 HOLISTIC INCENTIVE PACKAGE

The calibration of BPI, TIM and ODIs should be considered holistically as part of a single ED3 incentive package. The combined reward opportunity must be sufficient to incentivise companies to outperform baseline expectations, innovate and deliver enhanced outcomes for customers.

Figure 4.1 Incentive Package



We noted that there remains a significant amount of development to be carried out between the Business Plan submission and Final Determination where we expect Ofgem to set the Incentive package. Despite limited development from Ofgem we have proposed initial thinking on what we need from the Regulatory Framework for ED3 to ensure our plan remains investable and financially viable for the ODI Package and Totex Incentive Mechanism.

4.2 OUTPUT DELIVERY INCENTIVES (ODI)

4.2.1 ODI CALIBRATION PROPOSALS

There is a significant amount to deliver in ED3, and the incentive framework has an important role in focusing DNO performance on the areas where outperformance can deliver the greatest value for consumers. Ofgem has signalled a desire for strong incentives in key areas including connections and DSO, with the increased focus on these areas in ED3. We support strong incentives where they can drive meaningful improvement. The strength, targets and overall calibration must provide a credible opportunity to outperform and reflect the extent to which outcomes are within a DNO's control. This is particularly important for new or materially redesigned incentives, where there may be limited evidence on which to establish stretching but achievable performance levels.

The calibration of individual incentives should be considered holistically through their overall impact on RoRE. We consider an overall ODI range of +3.95/-3.95% RoRE would provide a balanced package, with meaningful upside for genuine outperformance whilst maintaining proportionate downside exposure where DNOs are not performing at the appropriate level. This must be assessed alongside the BPI, RAM and TIM to ensure the package as a whole maintains an appropriate balance of risk and reward, avoids disproportionate cumulative exposure and remains sufficiently strong to deliver ongoing improvements in performance. See (ED3-F01) Finance Annex for further detail on the building blocks of returns that are required to ensure the expected market return. There are still several significant gaps in the development of the design and target-setting of the ED3 incentives. This section sets out our current view based on the available information however this is subject to change as further detail becomes available.

Table 4.1 ODI Calibration Proposal

Incentive name	Key principles for incentive calibration	Proposed strength (basis points of Return on Regulatory Equity)
Smaller connections	Phase in new Time to Approve (TTA) and Time to Upgrade (TTU) measures, with reputational treatment in years 1–2 while robust baselines are established. Base Time to Quote (TTQ), Time to Connect (TTC) and survey targets on industry-average RIIO-ED2performance and include clock stops for factors outside DNO control. With new technology including automation, it is right for Ofgem to introduce the new elements of this incentive.	+50 / -50
Larger connections	Set achievable targets using actual performance and customer readiness dates. Include clock stops for external delays and ensure equivalent opportunity for reward and penalty where competition applies.	+50 / -50
Distribution System Operator (DSO)	Reward genuine customer and system outcomes, including early access, reduced curtailment and renewable utilisation. Retain panel assessment and ensure calibration reflects the expanded scope and factors the DNO can influence. This area is perhaps the most critical for the overall functioning of the future energy system and a driver of system efficiency and wider economic benefits. It is right that Ofgem increases the scope and strength of this incentive as strong incentive here will drive innovation.	+135 / -60
Broad Measure of Customer Service	Retain a balanced reward-and-penalty incentive with a 9.2/10 target for each element. Remove the proactive contact cap and fixed weighting between agent-led and automated power-cut surveys.	+20 / -20
Customer Vulnerability	Apply annually. For Priority Services Register (PSR) reach, use a penalty below 80%, an 80–85% deadband and reward from 85–95%; retain RIIO-ED2 targets and deadbands for social value and customer satisfaction.	+20 / -20
Complaints	Continue the RIIO-ED2 approach, which is working effectively, with a target score of 2.8.	-20
Interruptions Incentive Scheme (IIS)	Retain the Revenue RIIO-ED2 target-setting methodology. Targets should be achievable, realistic and grounded in historic performance, with any required improvement reflecting the time and ability needed to deliver it. System reliability has improved radically since IIS was introduced, IIS now acts on a much smaller base for potential improvement. The mechanism is now about maintaining and incrementally improving performance rather than driving step change. Given this and our proposed reduction in the TIM sharing factor, a lower powered IIS makes sense with the incentive power redistributed to areas where Ofgem wants to drive new step changes in performance.	+100 / -175

Incentive name	Key principles for incentive calibration	Proposed strength (basis points of Return on Regulatory Equity)
Collaborative streetworks / Dig, Fix and Go	Use a reward-only design. Base targets on each network's own average performance, reflect differences in opportunity between licence areas and provide an equal opportunity to earn reward.	+20
Environment	Do not introduce a standalone financial Output Delivery Incentive (ODI); secure environmental performance through baseline obligations, dedicated investment, transparent reporting and delivery accountability.	Not proposed
Total incentive package	**Assess the package holistically alongside the Business Plan Incentive (BPI) and Totex Incentive Mechanism (TIM) to maintain a proportionate balance of risk and reward and avoid disproportionate cumulative exposure.**	**+395 / -395**

4.2.2 INTERACTION WITH RAM

The Return Adjustment Mechanism (RAM) provides an important backstop to the overall incentive framework, limiting the potential for excessive aggregate returns or penalties where performance across multiple incentives produces an extreme outcome. This allows individual incentives to be calibrated to drive the right behaviours and outcomes without relying on overly restrictive caps at an individual incentive level. However, the RAM should remain a safety valve rather than a substitute for appropriate calibration of the underlying incentives.

4.2.3 CONNECTIONS INCENTIVE PACKAGE

The ED3 arrangements significantly broaden the scope of the connections incentive package, both for smaller and larger connections, and introduce measures for which no established performance baseline exists. Our plan will build on existing strengths in minor connections while improving larger connections customer experience, process accuracy, communication and delivery visibility. Calibration should recognise the transition to the new framework, distinguish controllable performance from third-party delay and avoid duplication with minimum standards and other new regulatory requirements arising from the End-to-End Connections Review.

Smaller Connections

Table 4.2 below sets out our proposed reward, penalty and associated target for each element of the smaller connections incentive package.

Table 4.2 Proposed incentive for Smaller Connections

Smaller connections incentive	Maximum reward / penalty (bps RoRE)	Target
Time to Approve	10	Automatic / 24h where manual review required
Time to Upgrade	10	Should be based on Y1 and Y2 actual data.
Time to Quote	10	Should be based on industry average ED2 performance
Time to Connect	10	Should be based on industry average ED2 performance
Customer satisfaction	10	Should be based on industry average ED2 performance

The following design points should be included within the smaller connections incentives:

- A phased introduction of LCT targets under Time to Approve and Time to Upgrade should be applied given that this is a new incentive area and historical information is not available to ensure suitable targets are developed for the start of ED3.
- Ofgem should introduce a reputational incentive only for the first two years of ED3 while we are establishing achievable delivery rate, to allow suitably robust and deliverable target to be set.
- Clock stop must be included in the incentive mechanism to allow for delays outside of a DNO's control.

Larger connections
Ofgem proposed calibration -50 / +50

The following factors should be included in the design and calibration of the larger connections incentives:

- Target delivery date must factor in customer readiness date.
- Clock stop must be included to avoid penalties for external factors such as Transmission delays, reinforcement requirements, planning issues or customer readiness.
- Allow for competition to ensure DNOs are not exposed to penalties where IDNOs and ICPs do not have obligations and to ensure DNOs have equal opportunity for reward / exposure to penalty
- Target must be achievable and based on actual performance to drive improvements

4.2.4 DSO INCENTIVE

The ED3 DSO incentive is expected to be a significant step change from ED2, both in terms of an increase in scope and strength. This is appropriate as flexibility is an important element of ED3 to get right to ensure that the principle of Build and Flex is fully embedded, with flexibility a critical tool in improving utilisation and timing of investment in reinforcement. It is important that flexibility is funded through baseline funding, with the DSO incentive rewarding outperformance. The DSO incentive should be outcome-focused, and reward genuine customer and system benefits delivered through accelerated access, operational flexibility and whole-system coordination.

Key points on the design of the incentive are:

- The increase in strength to 135 bps RoRE (with a split of 60% for REDI and 40% for Whole System Solution) appropriately reflects the increase in scope of the DSO incentive.
- REDI is the right principle as it rewards real customer outcomes.
- Early access, curtailment reduction and renewable utilisation should be rewarded.
- Panel assessment remains essential because whole-system coordination, voltage / losses optimisation and industry leadership can't be fully captured through metrics alone.
- The incentive must be evidence-based and focused on factors we can genuinely influence.
- Flexibility must be funded through baseline allowances.

4.2.5 BROAD MEASURE OF CUSTOMER SATISFACTION AND VULNERABILITY

The ED3 BMCS and vulnerability incentives will build on the RIIO-ED2 incentives. We support the key changes proposed, including the removal of the connections survey element (moved to the connections incentive package) and an increase in scope of the vulnerability incentive to include storm support and customers who are medically dependent on their electricity supply.

In ED3 we will seek to continue our measured improvements in BMCS performance and maintain a strong vulnerability position, using the customer service improvements, transformation capabilities and targeted support set out in our business plan.

Table 4.3 Proposed incentive for BMCS and Customer Vulnerability

Customer incentive	Element	Maximum reward / penalty (bps RoRE)	Target
BMCS	Planned interruptions: 33.3%	+ / - 20	9.2/10 for each element of the incentive – continuation of RIIO-ED2
	Unplanned interruptions: 33.3%		
	General enquiries 33.3%		
	Complaints metric	- 20	2.8 – continuation of RIIO-ED2
Customer Vulnerability	PSR Reach: 40%	+ / - 20	< 80% penalty, 80-85% deadband, 85-95% reward.
	Social Value: 40%		Target and deadband remain in line with RIIO-ED2.
	CSAT: 20%		Target and deadband remain in line with RIIO-ED2.

Customer Vulnerability Incentive

The following factors should be considered as part of the design for the ED3 CVI:

- PSR Reach should remain reward / penalty in ED3 to continue to drive DNOs to extend the PSR as far as possible. Given the strong performance in RIIO-ED2, we propose tighter measures as set out in Table 4.3 above.
- The Social Value element should remain in line with RIIO-ED2. However, this element should apply regardless of whether the threshold for minimum number of surveys is met.
- The CSAT element should remain in line with RIIO-ED2 as it is continuing to drive performance improvements. We are continuing to work with the other DNOs to look at ways to improve the numbers of responses to customer surveys in this area as this has proven difficult in RIIO-ED2.
- Given that the CVI is now embedded in BAU, we propose that it is applied as an annual incentive (rather than at Y2 and Y5 year as is the case in RIIO-ED2).

4.2.6 IIS

With reliability remaining a top priority for customers, it is important to retain a strong incentive on DNOs to maintain and improve reliability across their networks. The IIS has been effective in driving up the overall reliability of GB DNOs' networks since its inception. Recent performance across the industry suggests we are at a stage where step changes in performance are no longer economic, and maintaining steady performance is increasingly challenging and costly to do. The mechanism should remain in place to ensure all DNOs deliver high performance throughout ED3, but should be calibrated to ensure the incentive remains appropriate given increasing dependence on electricity and the expected increases in intervention needed to facilitate the energy transition.

The IIS envelope must also be considered alongside our proposed 25% TIM sharing factor. Without adjustment, this lower TIM would result in the current maximum reward and penalty under IIS being completely unachievable.

We therefore propose a reduction in the IIS envelope to +100 / -175 bps RoRE, with the remainder being spread across the other incentives that are either new or significantly increased in scope (e.g. DSO).

Unplanned targets

Ofgem should retain the RIIO-ED2 unplanned target setting methodology to calculate appropriate targets for each DNO in ED3. The methodology uses historic, observed performance from DNOs to set a target that is appropriately scaled for each network, and retains a continued push to improve through the application of annual improvement factors. Ofgem should use this methodology and avoid any further changes to the outputs of the model to ensure targets remain achievable, realistic and suitably stretching for DNOs. This remains particularly important given the overall weighting of the incentive (more heavily weighted towards penalties), and overall RIIO-ED2 performance observed to date across the industry.

Planned targets

The established mechanism for setting planned interruptions targets ties a DNO's future targets to its own historic performance. While the mechanism is unable to rapidly reflect step changes in performance (even where this is driven by justified factors such as net zero related investment or the impacts of a global pandemic restricting work activity), this is also a strength in that it drives a smoother delivery profile and allows time to adjust. This approach should be retained for ED3 to ensure DNOs can increase the volume of work they are carrying out on their network without incurring significant penalties, but still be driven to minimise the number and duration of planned interruptions for customers.

4.2.7 COLLABORATIVE STREETWORKS / DIG, FIX AND GO

Ofgem is still considering whether to include existing bespoke RIIO-ED2 / GD3 incentives in ED3, including collaborative streetworks and Dig, Fix and Go. Any incentive in this area would be new to us and careful consideration of the design is needed, particularly in relation to differences across licence areas. Subject to further understanding of the arrangements and what that means in our licence areas, we support a reward only incentive in this area in ED3.

For collaborative streetworks, the opportunity to collaborate will vary significantly across different licence areas. In SHEPD, rurality and a smaller pool of potential collaborators inherently limits the opportunities for us to collaborate. The incentive must be calibrated to reflect this difference in network characteristics, ensuring we have equivalent opportunity to earn reward.

For Dig, Fix, and Go, we support the principle of driving us to reduce the average duration of emergency jobs. However, calibration must reflect differences between licence areas, including the higher proportion of overhead lines in our SHEPD area, which could limit our opportunity for reward under this incentive. Targets must reflect realistic and achievable improvements to ensure fair opportunity for reward across the DNOs. It would not be appropriate to include any penalty under this incentive as we already incur over-run charges from local authorities for extended open excavations and this would therefore result in a double penalty.

4.2.8 ENVIRONMENT

We support strong environmental ambitions and transparent accountability in ED3, as set out in more detail in SSMD and Business Plan Guidance, and reflected in our Environmental Action Plan. However, we do not consider a standalone environmental ODI-F necessary. Environmental outcomes are already driven through baseline obligations, dedicated investment programmes, legal requirements and stakeholder scrutiny. Introducing a financial incentive, risks increasing complexity, exposing customers to additional cost and incentivising performance against a limited set of metrics that remain immature in several areas. We therefore believe environmental performance is better secured through ambitious commitments, robust reporting and delivery accountability rather than additional financial incentives.

4.3 TOTEX INCENTIVE MECHANISM

The Totex Incentive Mechanism (TIM) shares differences between our efficient expenditure and totex allowance between customers and the DNO. A well-calibrated TIM therefore creates a continuous incentive to control costs and pursue genuine efficiency, while providing a degree of protection against efficiently incurred cost movements that cannot reasonably be avoided.

Key Ask

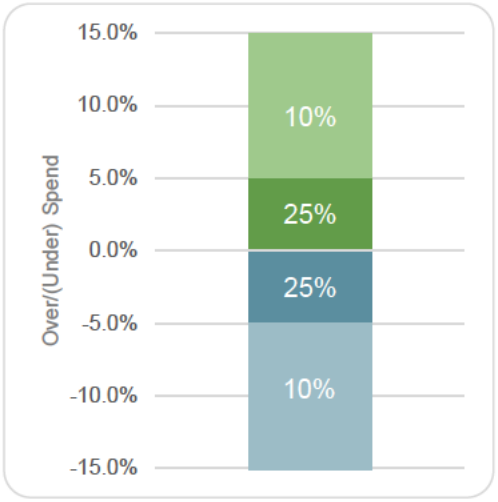
Ofgem should adopt the proposed 25%/10% stepped TIM as part of a coherent ED3 package. The calibration should be assessed alongside the cost assessment methodology, Business Plan Incentive, output incentives, Price Control Deliverables, Real Price Effects, uncertainty mechanisms and the allowed return on equity, so that the framework does not apply cumulative penalties to the same underlying cost or delivery risk.

4.3.1 PROPOSED STEPPED APPROACH FOR ED3

We propose a symmetrical stepped TIM for ED3. A 25% sharing factor would apply to the first 5% difference between cumulative totex allowance and expenditure. A lower 10% sharing factor would then apply to any difference beyond 5%. The same rates would apply to both underspend and overspend, preserving a balanced incentive and avoiding asymmetric treatment of reward and risk.

Table 4.4 Proposed ED3 stepped TIM calibration

Difference between allowance and expenditure	SSEN sharing factor	Customer share
Underspend or overspend below 5% Delta	25%	75%
Underspend or overspend above 5% Delta	10%	90%



4.3.2 WHY A STEPPED TIM IS REQUIRED

The proposed design retains a meaningful incentive within a range where the DNO can reasonably influence performance. A 25% sharing factor across the first 5% of under/overspend maintains a clear financial incentive for efficiencies or inefficiencies. This supports driving innovative practice across procurement, programme management, delivery and efficient trade-offs across the portfolio. Once the variance exceeds 5%, however, the likelihood that the outcome reflects material allowance-setting error, exceptional market movements or wider macroeconomic conditions increases. Applying a 10% sharing factor beyond that point limits disproportionate exposure without removing the incentive to manage costs.

This is particularly important for ED3. SSEN expects to deliver a materially larger and more complex programme in markets affected by constrained supply-chain capacity, specialist labour shortages, commodity and equipment price volatility, geopolitical disruption and uncertain macroeconomic conditions. Real Price Effects and uncertainty mechanisms should remain the primary tools for addressing identifiable cost risks, but they may not fully capture the timing, scale or composition of all efficient input-cost movements. A stepped TIM provides an additional portfolio-level safeguard where aggregate expenditure diverges materially from allowances, while retaining accountability for cost control.

The approach also provides a fairer outcome for customers. Customers would receive 75% of efficiencies within the first 5% and 90% of efficiencies beyond that threshold. Conversely, the lower exposure at larger variances reduces the risk that external shocks undermine financeability. This supports an affordable, investable and deliverable settlement:

customers retain the clear majority of savings, SSEN remains incentivised to deliver efficiently, and extreme outcomes driven by factors outside reasonable management control are moderated.

4.3.3 ILLUSTRATIVE FINANCIAL IMPACT

Existing SSEN analysis, based on a £8.9 billion ex ante totex baseline, demonstrates how the proposal preserves the incentive around normal delivery variation while materially reducing exposure at larger variances. At a 5% variance, the proposed stepped approach produces a company reward or exposure of £115 million. At an 8% overspend, exposure is approximately £143 million, compared with £184 million under a flat 25% sharing factor and £368 million under a flat 50% factor. At a 10% overspend, exposure is approximately £161 million, compared with £230 million and £460 million respectively.

4.3.4 REGULATORY POSITION

Ofgem should adopt the proposed 25%/10% stepped TIM as part of a coherent ED3 package. The calibration should be assessed alongside the cost assessment methodology, output incentives, Price Control Deliverables, Real Price Effects and uncertainty mechanisms, so that the framework does not apply cumulative penalties to the same underlying cost or delivery risk. The mechanism should remain symmetrical, transparent and fixed for the control period, with performance assessed on a cumulative basis. This would preserve a credible efficiency incentive, increase customers' share of savings and provide proportionate protection where material variances arise from market volatility and macroeconomic impacts beyond reasonable management control.

5. BUSINESS PLAN INCENTIVE

Ofgem approved three of our Business Plan Incentive (BPI) Early Proposals to progress to the next stage. A summary of each proposal is provided below, with further detail provided within the relevant strategy document for each.

5.1 STRATEGIC SPARES / JOINT PROCUREMENT & SUPPORTING OUR LOCAL SUPPLY CHAIN

Strategic Spares and Joint Procurement

We have progressed with our proposal to explore a shared strategic spares and procurement model with other network operators. This is to assess the case for centrally managed repository of strategically important equipment, including transformers, switchgear and SF_6-related equipment, alongside greater coordination of procurement across network operators. We will continue to work with the other DNOs to develop the scope of a potential shared strategic spares approach and identify assets where coordinated procurement and shared access arrangements could provide the greatest consumer value. Our next phase of development will quantify the potential whole-system and customer benefits and establish the technical, commercial, operational, ownership, governance and regulatory arrangements required to make this model workable. This will determine whether the proposal can deliver additional value beyond the resilience already provided through our core sourcing strategy. Further detail is provided in (ED3-S05) Delivery Strategy.

Supporting our Local Supply Chain

As well as being a leading voice in developing the cross-industry Electricity Sector Growth Plan[11], we have progressed with our proposal on Supporting Our Local Supply Chain, which seeks to increase the proportion of our equipment and material expenditure that relates to products manufactured or materially assembled in the UK. We have led collaboration with the other DNOs to establish a common definition of 'UK Content', developed an industry baseline

[11] Electricity Networks Sector Growth Plan

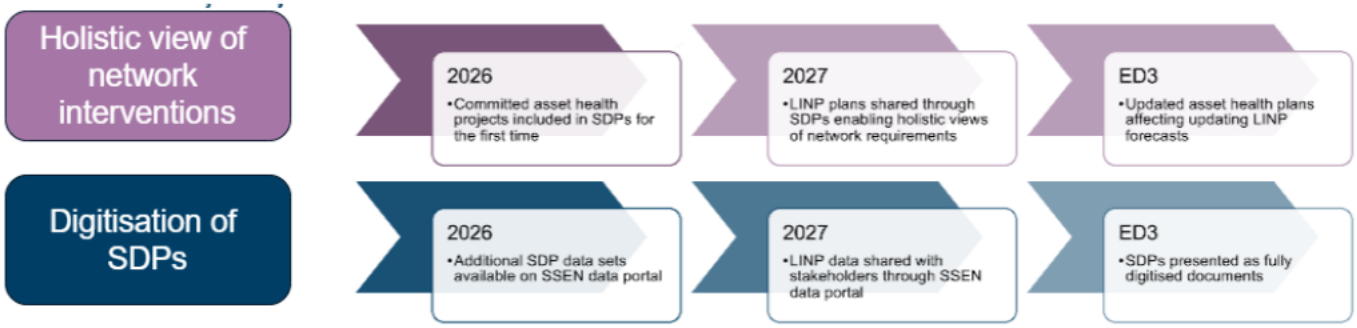
position, agreed a common measurement approach and worked collectively to define the sorts of assets and equipment that should be captured. We have also engaged extensively with Ofgem, DESNZ and supply chain partners, completed a legal review against the procurement requirements and are carrying out modelling to assess customer and wider economic impact. Together, these actions have laid the groundwork for a consistent industry approach that supports UK manufacturing, strengthens supply chain resilience and delivers wider value for customers. (ED3-S05) Delivery Strategy sets out more detail on the progress we have made against this proposal as well as our ongoing commitment to this in ED3 and how we will track against this.

5.2 SDP+ FOR GSPS AND INVESTMENT DRIVER TO 2050

Our Strategic Development Plans (SDPs) provide insights and information on the long-term needs and outline plans for our network across both licence areas out to 2050. Our SDPs are published annually for different spatial areas as consultations, inviting stakeholder feedback. Under our early proposal, we proposed to develop our SDPs further to integrate both load and non-load data, along with RESPs and spatial plans. This would provide consumers and stakeholders with a clear view of how each component fits together, supporting a bottom-up approach to creating the LINP. We also proposed to make the underlying SDP data available to customers.

There are two developmental areas that transform SDP to SDP+: a holistic view of network interventions and the digitisation of SDPs. The journey from SDP to SDP+ in ED3 is shown below.

Figure 5.1 The Journey from SDP to SDP+ in ED3



We are now implementing the 2026 stages of the roadmap. We have reached out to external stakeholders for additional insights to feed into our 2026 SDPs and we are now building the document from updated data sources including asset health which will give us a first-time view of asset health projects. We will be publishing updated SDPs later this year which will bring out the additional data steps stage of the roadmap.

The 2027 stage of the roadmap will follow after LINP has been finalised. This will be progressed through the 2027 update of SDPs starting with the methodology update in early 2027 via industry consultation.

Further detail on our SDP+ Early Proposal can be found in (ED3-S10) DSO Strategy.

5.3 ENHANCED STORM SUPPORT

Under our Enhanced Storm Support proposal, we propose to standardise storm support across all DNOs, ensuring a consistent level of service nationwide. This included aspects such as clear thresholds for provision of welfare services; standardised welfare payment structure; and clear criteria for customer entitlement to hotel accommodation. This was combined with SPEN's storm proposal and has resulted in the requirement for DNOs to submit a separate Targeted Customer Storm Support Strategy (TCSSS) alongside ED3 business plans. As part of (ED3-S07) Targeted Customer Storm Support Strategy, we have committed to building on our ED2 welfare provision framework and to develop and implement Storm Service Standards to ensure our customers are clear on the level of service they can expect to

receive from us before, during and after a storm. We continue to work collaboratively with the other DNOs to share learning and best practice as our Storm Service Standards are developed, with a view to supporting greater consistency of customer support arrangements across the sector. See (ED3-S07) Targeted Customer Storm Support Strategy for further detail on this area.

6. CONCLUSION

Our ED3 regulatory framework proposals are designed to create a balanced, proportionate and deliverable settlement, providing clear accountability for outcomes while retaining the flexibility needed to respond to uncertainty and deliver a significantly larger investment programme than in RIIO-ED2. Taken together, our proposals on outputs, uncertainty mechanisms and incentives seek to protect customers, maintain strong incentives for genuine outperformance and ensure the framework supports, rather than constrains, delivery.

As the ED3 framework continues to develop, we will work with Ofgem to refine the detailed design and calibration so that the overall package maintains an appropriate balance of risk, reward, flexibility and accountability, supporting an investable settlement and the outcomes customers need through ED3 and beyond.