



# Delivering the Pathway to 2030

RIIO-T3 SSEN Transmission webinar

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Transcript



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Speakers:

**Rob McDonald**                      Managing Director, SSEN Transmission

**Maz Alkirwi**                         Finance Director, SSEN Transmission

**Michael Livingston**                Director of Investor Relations, SSE PLC

**Michael Livingston:**

Hello and welcome to this investor webinar focused on our UK electricity transmission business. My name is Michael Livingston, I'm Director of Investor Relations here at SSE PLC and it's my job to guide you through the speakers and the agenda today. I'm joined by Rob McDonald, Managing Director of our transmission business, who has been through over 10 price controls in his 28 years with SSE, and Maz Alkirwi, our Finance Director, who has only seen five price controls in his 14 years.

Since releasing our RIIO-T3 business plan in December 2024, Rob and the team have made strong progress in delivering the transformational investment contained within. And over the course of this webinar, we will look to cover why this investment is required in the north of Scotland, the progress we have made in delivering it, including the 11 mega projects under our licence area, and give a bit of colour on the financial parameters and the incentives we expect to earn during the price control. So, Rob, maybe you could kick us off by talking about why this investment is required, why we have such rapid growth in the north of Scotland.

**Rob McDonald:**

Okay, thanks Michael. Yes our licenced area in the north of Scotland covers about a quarter of the UK's landmass. We've got less than five percent of the UK's population, but we have fantastic renewable resource.

And because of that, we are an exporting system. For example, if we look at the Climate Change Committee's projections for total carbon emissions, this is carbon emissions of the entire economy of Great Britain, fully one-sixth of those emissions reductions by 2050 need to come from renewables just in our network in the north of Scotland. If we think slightly nearer term to the government's Clean Power 2030 mission, we need to account for 20% of that clean generation by 2030.

So huge renewable growth. To put that in specific numbers for our network, we need to take a network today that has 11 gigawatts of renewable generation to a network that has about 21/22 gigawatts by 2030. So nearly double in that timescale.

To achieve that, we've got a 29-billion-pound investment programme, all approved by Ofgem. There are 11 major projects that do the heavy lifting on that 29 billion. Five offshore reinforcements, six onshore.

And if we deliver those 11 projects and that 29-billion-pound investment programme, we'd be on track to deliver all of our commitments for Clean Power 2030.

**Michael Livingston:**

Fantastic. I mean, that is an incredible amount of investment, Rob.

What gives you the confidence in being able to deliver that level of ramp up of investment and projects?

**Rob McDonald:**

It is an ambitious plan, as you say. But if you think about transmission projects, you typically need to think about maybe four things that are raw ingredients about confidence in delivery. Firstly, do you have your regulatory approvals? Well, we have those in T3.

Secondly, do you have the planning consents that you need? And for those 11 projects, we're making massive progress. Those 11 mega projects, as we call them, require 34 different types of planning consent. We've actually got three quarters of those already.

So we're making excellent progress in terms of getting the planning consents. Thirdly, it's about the supply chain, because we can't do this on our own. We need the supply chain to step up and deliver that.

And over the last two years, we've put a lot of time and effort into securing the supply chain for those 11 projects. And we've now done that. But moreover, we've not just secured the supply chain, we've actually spent quite a lot of money putting down things like deposits for factory slots and those sorts of things.

And not only that, that also allows the supply chain in turn to make the investments they need to build the capacity to deliver our projects. So good confidence that we've not only secured the supply chain, but that it's getting ready and is capable of delivering for us. The last ingredient is, of course, our own capability in transmission.

If I look back at 2019, for example, we had 400 people, we've now got just shy of 2,800. I think we've brought in real quality, really pleased with the people we've managed to attract into the company. Just by way of a for instance, around a third of the people we brought in are from ex oil and Gas, which is great from not only from just transition, but from increasing our capability and our ability to deliver on these mega projects.

But it's not just about our staffing, important as that is. It's also about our other infrastructure, whether that's IT, we're making substantial investments, whether that's our offices, we're building a brand-new training centre, a brand-new control room, all of this infrastructure, not just to deliver that investment, but also to run what will be a 30-billion-pound company. So, all of those ingredients are in place or getting in place.

I think two other points are important, Michael. Firstly, we should bear in mind these are projects, the like of which we've done before.

If I take the offshore, just as by way of a for instance, most of the projects offshore are point to point HVDC. We just recently connected Shetland, which is a point-to-point HVDC, a massive project that was delivered ahead of time, actually, not just on time, but slightly ahead of time on budget and not a single accident during construction. So, these are things we've got a track record of doing before.

If I look across the piece at T2, we delivered our plan there despite some significant geopolitical headwinds. So that's important. And the second thing that's important is this isn't a plan on a page. This is happening right now as we speak. Of those 11 projects I've mentioned, five of them are already in construction and they're progressing really, really well. All of that taken together, look, it's early days, we're not losing sight of that, but that gives us a strong confidence that we can deliver this plan.

### **Michael Livingston:**

Fantastic. Thank you, Rob. So, I guess, drawing on our rich legacy and experience of going through the consenting process in our own home turf. But I also think importantly, the plan

wasn't assuming that we'd deliver everything in the first place and consents would come through.

**Rob McDonald:**

Yes you're absolutely right, Michael.

Consenting has been a key focus for the last year and more besides. If I think about those big 11 projects that we've been discussing, they require 34 different types of consent.

There's three main types of consents that are required, substations, overhead lines and marine consents. If we just say a few words about each of those. On the substation side of things, we need 21 consents, representing the majority of them.

We've already got 17, including for Netherton, which is the biggest ever consent we've had. The Netherton site will be roughly the size of the state of Monaco. So, it gives you some sense of the scale of what we're looking to do.

That's fully consented, and we've got 17 of those consents. The remaining four were rejected by the respective local authorities. Now, interestingly, in each case we did get approval of the local planning officer, which is really important when you go into these legal processes.

They will then go to appeal and they're all for a decision this year. So, all for a decision this calendar year. We've got the consent of the local planning officer in each case and also a confidence in the proposals that we've put forward.

There's nothing we've heard in those discussions at the planning authorities and those sorts of things that has given us any new information. Obviously we respect the process we're in, and we will continue to, but you'll see a decision this year and we are confident we can get through that.

On the overhead line side of things, we required eight consents. We've got five of them and we require three more. They are the first consents that are going to the Scottish Government's new process, which provides for a decision on overhead line consents within 12 months. There's a couple of different procedural routes you can go through through that process, but whichever route you go around, you end up with a decision still in the 12 months.

All three are going through the public enquiry route, so that's understood. Public enquiries are something we've had extensive experience of. Most recently in Argyll, where we had a section of overhead line went to public enquiry in Argyll and was ultimately approved substantially in the form it was submitted.

Equally with the substitution, we will respect the process, but we're confident in our proposals.

And lastly, the marine consents, we required five of those. We've got four of them. The last one has been submitted. It's in the process. Good discussions with marine consents units and we expect to see that late summer this year.

So, we've secured three quarters of the consents we need. The rest are all in the various different legal or regulatory processes, and in all cases, confident in the quality of the submission that we've made, confident that we can get the right outcome.

**Michael Livingston:**

Fantastic. Thank you very much, Rob. I mean, it's incredible, I guess.

We talked a bit about the investment that SSE is making and the benefits, I guess, the increase in asset base that SSE will receive. Would be worthwhile touching a bit on the wider economic benefit we think this investment will give the communities we operate in?

**Rob McDonald:**

That's a great question, because a core part of our plan and our submission as part of T3 was around not just delivering that £29 billion investment programme but delivering it in a super smart way that maximises the economic and social benefit for the communities we serve. There are lots of ways we can think about that and think about the framing of that.

If you think about jobs, our plan, we believe, will support 37,000 UK jobs, about 18,000 in Scotland. It's a massive contribution. I've already talked about the jobs in transmission.

We've got 2,800. Our budget will see us grow to about 3,500 this year. So just in transmission alone, huge, huge job growth.

It's also leading to significant community benefit. As a minimum we think this will deliver 100 million of community benefit, which is a huge amount in the north of Scotland.

And then we've got things like our innovative housing strategy. This is a new strategy we've developed, where we will construct or refurbish new houses, at least 1,000 new houses, that we'll use for accommodating workers during construction. Then we will hand them over to social landlords, local authorities, and that will leave a lasting legacy. In the north of Scotland, housing is a real issue for the economy. So that is leaving a real and meaningful legacy.

There are other things we could talk about, biodiversity net gain, and all these other things. And the last point, of course, which I think is important to call out, is our investment is an enabler for lots of other investments.

The renewable industry in north Scotland will not flourish unless we have the core backbone of the transmission system, and our investment unlocks not just the jobs we're creating, but the jobs that will come in. Renewable, hydrogen, and other industries. So, I don't think it's overstating it to say that I think this is the biggest economic opportunity the north of Scotland has.

**Michael Livingston:**

And touching on supply chain, probably it'd be worthwhile just getting a bit more detail on how collegiate our supply chain have been, the breadth of the supply chain, their ability to deliver, and particularly in the north of Scotland, where we maybe have a lot of experience of delivery, but some of the other supply chain are perhaps looking to establish new frontiers and new frontiers.

**Rob McDonald:**

I think one of the things that is fundamentally different about T3 than previous price controls is we've moved away from a very transactional relationship with the supply chain, project by project, it goes out to tender, to looking at this more as a portfolio.

You know, Ofgem have approved all of the projects we need out to 2030, and that allows us to think very, very differently about how we deliver that than what we've been able to do hitherto. So, we've contracted right through to 2030, and this allows us to think about the relationship with the supply chain much more as a partnership than it's quite a transactional relationship. And that's good because it allows us to give that early certainty with the supply chain, enable them to make the investments they need to make to increase their capacity for delivery.

I'm starting to see those investments come through, Bam Nuttall with the new offices at Kilsyth, there are collaboration offices at Balfour Beatty have built, Murphy's are building a new depot all in our area, there's a Sumitomo factory at Nigg, there's investments by NKT, and the rest of our supply chain. We're starting to see the supply chain make that investment, and I don't think that would have been possible hadn't we not given that early certainty.

The other thing that we've done, and again this portfolio approach allows us to do this, is to have a forum where we can bring together all of the major elements of the supply chain and just talk about common problems, common issues, and end those things out. And those are things that we've not been able to do in previous price controls when it's been project by project and you haven't had that sense of a portfolio and that sense of a common sense of purpose. So, look, there's lots of further investments that are going to be required as we embark on this journey through to 2030, but I'm really pleased with the progress we've made the supply chain to date.

**Michael Livingston:**

Absolutely fantastic to hear Rob, and I guess we're not able to deliver this investment without the support of a regulator, and we've obviously just accepted the price control for the next period of investment. I was wondering if before we go on to Maz and start talking about some of the details of the financial parameters whether it would be worthwhile just giving a quick overview of what we're asking for from off-chain.

**Rob McDonald:**

Yes, T3 is a big moment for us, there's no doubt about that. I won't say too much about it because Maz always gets grumpy that I steal his slides, so I won't say too much about it. Suffice to say I think there are two things that are important for us for T3. Firstly, we've had all of our projects approved that we need to deliver in T3.

I've talked in the main about the big 11, but there are other local reinforcements and local connections, plus the associated infrastructure we touched on, the training centre, there's also depot infrastructure, all those different things have all been approved by Ofgem, and that gives us good early certainty about what we need to deliver, and that allows us to crack on and do exactly that, so that's important. And secondly, what we have is a financeable plan, a financeable plan for a £29 billion investment programme that gives us the confidence to go into market as we did at a group level last year to make various commitments. So taken together, that gives us confidence that we've got what we need to be able to deliver our obligations for Clean Power 2030.

**Michael Livingston:**

Thank you very much Rob. Maz, it's probably worthwhile turning to you, I guess could you start off giving a bit more detail on the financial parameters that were coming out of the price control?

**Maz Alkirwi:**

The key thing, as Rob has mentioned, is T3 has always been staged for being about delivery, and that meant we needed an investable price control framework. We also had to make sure that it was fully funded, and it was workable.

There's several different mechanisms we have to do through the period, and I'll touch on some of them in a moment. From a financial parameter's perspective, you know, it was important that we got a baseline return that's been updated for the changes in market conditions through the capital asset pricing model, which is standard regulatory tool for doing so. It was important that that was a solid baseline that gives us a credible pathway to above 9% returns, which I'll also cover briefly.

We needed a meaningful incentive package, and in that incentive package it was really, really important that we could see steps in which we could get to that, which we do, and again, we'll cover that because that's part of our pathway to delivering investable returns. With the funding of the plan, it was important that we had the right balance of cash flows during the period, given this unprecedented level of investment. So, getting a capitalisation rate, which is how much of the Totex expenditure that goes into the regulatory asset value that you recover over a period of time, and how much you actually get in year through fast money, as we call it.

That's similar to the T2 levels, which given the scale investment was really important, and what we'll see is that'll give us enough of a pathway to have the funding in place, which obviously the group has recently secured the first step of that, and we'll go and start securing some of that debt financing over the period, some of which we've made great progress on.

In terms of the other aspects of the financial parameters, Ofgem have transitioned to a semi-nominal cost of debt, instead of having real returns on debt and inflation of part of the RAV, we're getting a large proportion of that as nominal returns, which really means almost like another bit of fast money, and that's helpful from a cash flow perspective. And what we're now seeing is a bit more of a lockstep movement in asset growth, as well as revenue and earnings growth, and all of that underpins delivery, it underpins pace of that delivery, it makes sure that our plan is financeable, allows us to do all the great work that we're doing on the economic side and the social benefit of a plan, and also sets us up, really sets us up for the future to keep delivering that great investment in the north of Scotland that'll help deliver UK's clean power ambitions.

**Michael Livingston:**

That's a fantastic overview, Maz, and there's lots of areas we can get into, I'm sure, but probably just picking off some of those components in turn, one of the things, one of the questions we've had is around the level of baseline spend we're expecting through the plan. I was wondering if you could just elaborate on what that looks like.

**Maz Alkirwi:**

Put in context, we tend to jump between talking about TOTEX and CAPEX, so I'll try and make sure I make the differentiation. In T2 we'll do over £6 billion in TOTEX.

Overall, we're talking about doing £29 billion in gross share of CAPEX, but then we've got operations, maintenance and other costs that go in with that. With regards to the baseline, the baseline for T3 is about £4 billion in TOTEX terms. Now, comparing that to T2, that baseline TOTEX term in T2 was ~£2 billion, so really there's a doubling in the baseline.

We've then got all of the uncertainty mechanisms, which are primarily driven by the ASTI and LOTI projects, the 11 mega projects. All in between the baseline and those 11 mega projects, that's about 90% of what we'll do in the next five years, and the remaining 10% of what we'll do will be about preparing for beyond 2030, and that will include the pre-construction activity, thinking about the beyond 2030, which was the NESOs report, looking at future investments, and although we'll get ourselves to hopefully that 21, 22 gigawatt system, that doesn't get us to net zero yet, so we need to keep going and make sure we continue to unlock that renewable generation in the north of Scotland, to the benefit of the UK.

In terms of what's in that baseline, its operations, maintenance, inspections, it's paying for our people costs, it's for IT investment, cyber security, resilience investment.

I mean, ultimately, we'll do around 23 different projects associated with resilience and asset replacement, and then we'll continue to probably do a similar number again as we make sure the network is really robust to its changing uses over time. So, very much quite an ambitious plan on the baseline, as well as overall.

**Michael Livingston:**

Fantastic. I mean, doubling our baseline spend from the previous price control to this price control, and then add on the 11 megaprojects on top, £29 billion gross, as you say. It'd probably be worthwhile, digging into what that does for our regulatory asset base, and the profile expected, on growth of that regulatory asset base through the price control.

**Maz Alkirwi:**

Naturally with that scale of investment; you're going to see the regulatory asset base increase significantly.

We have a compound annual growth rate of about 30% over the period. I think that'll likely make us about the fourth largest transmission operator in Europe and definitely makes us one of the fastest growing in the world. We've had several conversations with industry experts about that, as Rob's talked about how we're going to do it.

We've got a credible plan that we'll see that growth come through over that period of time with that huge investment. I think, given that we've had an investable and financeable framework from Ofgem that really balances that need for attracting investment, retaining that investment and cash flows, allows us to see those earnings grow at a similar rate.

And I think that's important and what investors want to see. I think that's the right thing in terms of optimising the right level of returns and impact on bills as well.

**Michael Livingston:**

That's some great colour on, I guess, unlocking the constraints that we currently have, unlocking, the clean power opportunity that we have as well in the UK.

Just before we get onto the financial parameters of the price control, one of the questions we do receive is clearly this is a large capital investment programme, a lot of commodity costs within there, a lot of commodity exposure. Wondering if you could give a bit of detail on what our commodity exposure actually looks like and, I guess, anything within the price control that helps us manage that.

**Maz Alkirwi:**

One of the benefits of the UK's regulatory framework, whether it was before RIIO or with the advent of RIIO, which has been in place since early 2010s, is it is well recognised as a very strong regularity framework. And then that, a cornerstone of it is, is it has inflation protection. That's important because it means that you can invest with confidence, knowing that inflation protections exist, but also keeps costs down in the long term, mainly because it allows you to manage that over a period of time.

To give a sense of it, we have our CPIH indexation of cost allowances, which is standard, and that's been the case over RIIO-T2 now and now into RIIO 3. We've also have two separate mechanisms that Ofgem use, one relatively new and one that's been strengthened.

The first one is called a real price effects, or RPEs, and what that does is it says what movements do we have in input costs associated with primarily baseline investment, because the baseline investment is agreed up front, so you need something that tracks what happens to costs over a period. So, if those costs move above or below inflation, then those allowances move with it. That mechanism existed in RIIO 1, RIIO 2 and RIIO 3, but for RIIO 3 it's been slightly enhanced to try and reflect the dynamics of the market that we live within.

The other mechanism that Ofgem has is called a price adjustments mechanism. That price adjustment mechanism is primarily targeted for the mega projects, and that's where when we're negotiating with the supply chain and we're working with them to build these projects out, highly complex ambitious projects with global supply chains and sub-supply chains, that actually there are a number of commodities, whether it be steel, copper, aluminium, polypropylene for HVDC cables. There's a number of factors there, so if we have the right agreement on the right mechanism to keep those costs down and keep control of them, those price adjustment mechanisms allow us to do that and allow us to make sure that we're protected and ultimately consumers are protected and then allows us to work with the supply chain accordingly.

**Michael Livingston:**

Thank you for lifting the lid on that Maz, I'm sure that answers a number of the questions we've been receiving, but the one area we haven't really dug into yet, you touched upon it in your opening answer, is overall returns. Can you help us understand I guess the building blocks of how we expect to get from the headline number of cost of equity to the level of returns greater than nine percent that you touched on earlier?

**Maz Alkirwi:**

The baseline return is always the most material element of it and it's important that that's set at a level that gives you a credible pathway to get to that above nine percent return. Ofgem has moved the number to an area where it gives us enough room to be able to do that.

If we, for the sake of simplicity, if inflation is two percent and we add that to that baseline return of 5.7 percent and then we add on an element of outperformance, then you can comfortably get above the nine percent. Now it doesn't mean that comes easy, you have to work for that, but for example in T2, we've got to go through the closeout with Ofgem, but we'll be above one percent on operational outperformance and then we would look to target financing outperformance as well. If we have the same in T3, and there's an incentive package that should allow us to do that, then between the baseline return, the inflation and then that one percent of operational outperformance plus financing outperformance, you're above the nine percent comfortably.

There are some mechanisms in there that mean that we won't get incentives until later, for example the big 11 projects, the ASTI projects have their own incentive framework, they are largely delivered at the end of the price control, so you're not going to see that really come through until later. Some of the incentives are very asymmetric, on the downside. If we look at energy not supplied, which is about reliability, the incentive annually is not really worth more than about a million pounds, but the penalty is 150 million pounds downside over the period. So because we've performed very well in that and it's expected that we'll have a reliable network, which is why we have a very solid baseline investment plan to ensure we maintain that record, that's very much about keeping the same kind of level performance, same level of reliability and not falling into penalty, but we've been able to do that over the last two price controls without a problem.

**Michael Livingston:**

Fantastic, thank you very much Maz. So, I guess baseline return of 5.7%, inflation which will be whatever it is, I mean it will vary during the price control, but take two percent, then you take 100 basis points, one percent of outperformance, similar level to T2, plus the financing outperformance takes us comfortably within that greater than nine percent return.

**Maz Alkirwi:**

Yes, absolutely.

**Michael Livingston:**

Fundamentally. Fantastic, no that's brilliant and thank you very much. I think that wraps up our discussion today and hopefully gives everyone listening to this webinar, watching the webinar, a strong sense of the progress we are making in delivering this investment plan.

Thank you very much to Rob and to Maz for putting up with my questions and thank you very much to everyone for listening. You're obviously watching this webinar on our website, a copy of the slides accompanying this will also be available on the same page and as always if there are any questions please do get in touch with the investor relations team. Thank you very much.