

Ofgem draft determinations for RIIO-3

18 August 2025

Legislation and
Governance Unit

We welcome the opportunity to respond to Ofgem's draft determinations for the RIIO-3 price controls. This response focuses on question ETQ11 and Ofgem's proposed approach to biodiversity funding, including whether it is appropriate for consumers to fund biodiversity outputs beyond legislative requirements.

The proposals

We note that every transmission operator has committed to delivering biodiversity outputs in its Environmental Action Plan (EAP) in addition to the ten per cent biodiversity net gain (BNG) mandated for projects that require planning consent.

- NGET: ten per cent BNG on all construction activities in addition to those requiring planning consent.
- SPT: deliver natural capital enhancement across projects with a measurable impact on ecosystems, achieved through local strategic nature partnerships.
- SHET: marine BNG outputs (£44.55m); Species and Habitat Restoration use-it-or-lose-it allowance (£26.7m).

Ofgem's proposed response

Ofgem's proposed response is to accept the EAP commitments made by transmission operators for environmental compensation activities required by legislation, including providing ten per cent BNG for projects requiring planning consent. However, it proposes to reject commitments to deliver additional biodiversity compensation beyond legislative requirements.

We disagree with this proposed response, for the reasons stated below, and encourage Ofgem to rethink its approach to funding biodiversity outputs in the next price control period.

Why Ofgem should change its approach

- The rejection of proposals because they are not a legal requirement does not appear commensurate with the scale of action needed to tackle the nature crisis in the UK, including in the marine environment.

- While existing or emerging legally binding biodiversity targets do not stipulate a statutory role for private sector companies in their delivery, governments across the UK anticipate a greater role for businesses in both reducing harms to nature and action to stimulate its recovery.¹
- Ofgem's approach would further cement the misleading narrative that ten per cent BNG is a ceiling, rather than a floor, of ambition. When the policy was formulated in the UK Environment Act 2021, there were clear expectations from parliament and stakeholders that this would be a minimum level of ambition, which was accepted by the government.^{2,3} In practice, there has been limited progress on moving beyond ten per cent, which Ofgem's approach risks exacerbating.⁴
- We agree that proposals for significant spend should demonstrate consumer value. However, it does not appear that Ofgem has embraced a sufficiently wide definition of consumer value, given the public interest in and support for restoring nature across the UK. If the evidence so far provided by companies around consumer value and support is insufficient, then Ofgem should be requesting more.
- While keeping consumer bills low is undoubtedly a very important policy aim, consumer value extends beyond a short term approach to bills. Damage to the natural environment is slowing the UK economy and could lead to an estimated 12 per cent reduction to GDP in the years ahead.⁵ Investing in nature recovery in the next price control period is likely to generate significant social and economic benefits for consumers over the longer term, bringing considerable value to consumers.
- A faithful interpretation of Ofgem's statutory biodiversity duties should, in our view, necessitate a more favourable response to the biodiversity proposals in the EAPs.^{6,7}
- There is strong public support for improving biodiversity and ecosystems, with 83 per cent of British adults supporting restoring nature at scale⁸. Exceeding legal minimums and delivering meaningful enhancements to ecosystems can foster stronger community acceptance and consent for projects, mitigating planning delay risks.
- Previous price controls have recognised the need for a strategic approach on biodiversity. For example, the Environmental Discretionary Reward scheme was a reputational and financial incentive in the RIIO-T1 price control for the transmission operators. Its purpose was to sharpen the companies' focus on strategic environmental considerations, including through making organisational and cultural changes. While the operating context has now changed significantly, we suggest that Ofgem considers whether there is any scope for a similar incentive in RIIO-T3.

Recommendations for transmission operators

The three transmission operators are large companies with significant budgets and profit margins. If they are granted substantial amounts of public funding to deliver the biodiversity outputs specified in their EAPs, there should be some consideration of what they as companies can offer additionally over the course of the price control period should returns exceed their expectations. There should also be a stringent monitoring programme in place to ensure that the outputs are delivered according to planned timescales and their impacts are assessed and understood.

For more information, contact:
Ruth Chambers, senior fellow
rchambers@green-alliance.org.uk

¹ Defra, 13 June 2025, [expanding the role of the private sector in nature recovery: call for evidence](#)

² Hansard, 17 November 2020, Environment Bill ([Seventeenth Sitting](#))

³ Defra, 21 February 2023, Guidance, [Understanding biodiversity net gain](#)

⁴ Wildlife and Countryside Link, February 2025, [Implementation of Mandatory Biodiversity Net Gain – one year on](#)

⁵ Green Finance Institute, April 2024, [Assessing the Materiality of Nature-Related Financial Risks for the UK](#)

⁶ [Section 40](#), Natural Environment and Rural Communities Act 2006

⁷ [Section 1](#), Nature Conservation (Scotland) Act 2004

⁸ YouGov for Rewilding Britain, June 2024, [Public attitudes towards restoring nature](#)