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Date: 23rd October 2025

Subject: **ASSURANCE REVIEW : LOAD RELATED EXPENDITURE (LRE) UM SUBMISSION**

Dear Melanie,

It is our pleasure to summarise the outcomes of our recent assurance reviews of your portfolio of ED2 and ED3 LRE investment, to support the Uncertainty Mechanism (UM) submission to Ofgem in October 2025.

As you know, our assurance review covered two related components i.e.:

- **Cost** : testing and validation of contractor and SSEN-D estimated costs for LRE projects, against best practice approaches and market-backed benchmarks; and
- **Schedule** : evaluation of the delivery methodologies, evidence and assumptions embedded within project schedules, and the overall control of schedules up to portfolio level.

Across both areas of scope, we also reviewed the delivery plans of SSEN-D's main contractor partners, to test their practices for the management of cost and schedule.

The overall aim of the review was to assess whether the LRE submission reflects a reasonable, deliverable and efficient proposition, consistent with current market conditions.

We concluded that the submission achieves these requirements, with levels of confidence which are appropriate to the current degree of maturity of the projects in the portfolio. It is therefore validated as appropriate for submission to Ofgem.

Through the work, we have identified a number of risks requiring ongoing mitigation, and further improvement themes to be addressed over the remainder of ED2 and into ED3. These risks and themes are to be expected at the current stage of portfolio maturity, and we understand that SSEN-D will co-ordinate and consolidate their management over the coming months. This will further enhance confidence in delivery.

Through Arcadis' work in supporting SSEN-D since 2021, we have observed a strong trajectory of maturity improvement, in areas such as planning, programmatic delivery, and supply chain collaboration. This track record of progress is also supportive of our positive assurance position.

We would highlight key aspects of our approach, and our main conclusions, for each area of scope as follows:

Cost Assurance

Our approach included:

- Review of the overall **Cost Stack** for the LRE portfolio, reflecting CEC2 estimates and mapping costs to the key market-facing categories of Plant, Install, Design, and Civils;
- Targeted analysis of the most significant costs in each category, to create the **Assurance Assessment Matrix**. The assessment considered relevant and available market cost trends and benchmarks, and also the extent to which costs have been derived from competitive market procurement processes;
- Analysis of **contractor delivery plans** and targeted **stakeholder interviews**, to further understanding of how the estimates were derived and costs will be managed and controlled.

The overall findings of this review can be summarised as:

£1.36bn of CEC2 cost was in scope of the review. 87% of this cost was assessed.	**£1.093bn of cost was successfully validated.** This is 94% of the scope reviewed, and 80% of the total scope.
Assurance is particularly strong for the Plant cost category. For Install and Civils costs, assurance can be further enhanced through obtaining additional market benchmarks, and challenging contractor and site-specific differences.	Contractor delivery plans show a number of key strengths, including in governance, sourcing strategies, and outage and resourcing planning. Further assurance can be obtained by additional monitoring of cost variances, and early warning KPIs.

Schedule Assurance

Our approach included:

- Review of **LRE Schedule Documentation** including LRE Deliverability Plans, progress reports and management dashboards, risk registers, and project specific schedules, baselines and scope documents;
- **Project-specific schedule reviews**, for a representative sample of LRE projects;
- Contractor partner **focus interviews**, to corroborate and validate key findings identified during documentation reviews.

The overall findings of this review can be summarised as:

Plans and schedules have been tested for a range of good practice techniques, including expedited consents, forward ordering of materials, resource loading and management, and portfolio optimisation.	**Multiple examples of good practice observed.** Maturity is typically appropriate to current project lifecycle stages, and key schedule risks (such as due to outages and spatial constraints) are being proactively managed.
Contractor partners are taking further steps to accelerate projects, including standardising designs, resequencing activities, streamlining reviews, and bringing forward enabling works.	Scheduling methodologies can be further enhanced by leveraging time intelligence from past projects, standardising reporting frameworks across all Delivery Partners, incorporating network understanding, and driving continuous improvement : all underpinned by digital tools. These enhancements are key to ongoing schedule integrity and assurance.

While we are able to conclude that the LRE portfolio is in a robust and defensible position, in respect of cost, schedule and deliverability, there are a number of risks to be actively managed going forward. In addition to the areas for ongoing maturity improvement highlighted above, we encourage SSEN-D and Ofgem to remain mindful of the overall dynamics in the infrastructure construction market. These create heightened levels of exposure to input cost volatility and capacity constraints in lower tiers, as well as vulnerability to financial shocks. Such strategic risks need active monitoring and, where feasible, active mitigation to support overall portfolio resilience.

An early decision from Ofgem on the UM submission will also be important to the management of risk, and to efficient and effective delivery overall. SSEN-D needs to be able to secure design scopes and project definition, commit to achievable phasing of work, and secure capacity and risk transfer with the supply chain. Delay can only make these imperatives more difficult.

Full details of our assurance reviews are provided in our detailed reports of October 2025, covering Cost and Schedule Assurance respectively.

Yours sincerely,

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