

# Guidance

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## **(draft) Accelerated Strategic Transmission Investment Guidance and Submission Requirements document**

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This document sets out the operational arrangements for the RIIO-2 Accelerated Strategic Transmission Investment (ASTI) Re-opener, the ASTI Pre-Construction Funding Re-opener and the ASTI output delivery incentive (ODI).

This document is aimed at Transmission Owners (TOs) and other stakeholders with a general interest in the ASTI re-openers and ODI. It covers matters including the information that we require from the TOs and the process we expect to follow in approaching our assessments.

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## 1. Background

### Context and related publications

- 1.1 Ofgem<sup>1</sup> is the Office of Gas and Electricity Markets which regulates the electricity and gas industries in Great Britain. Our principal duty is to protect the interests of existing and future gas and electricity consumers. Consumers' interests are taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply, and in the fulfilment of relevant statutory objectives when we are carrying out our functions as the gas and electricity regulator of Great Britain.
- 1.2 We work in various ways to protect the interests of current and future consumers. One way we do this is by regulating the network companies through the RIIO price controls. We set price controls to specify the services and level of performance that the electricity transmission (ET) Transmission Owners (TOs) must provide for users and consumers and to restrict the amount of money that the network companies can recover through network charges over the length of a price control period.
- 1.3 In December 2020 we published our RIIO-2 Final Determinations for the TOs - National Grid Electricity Transmission Plc (NGET), Scottish Hydro Electric Transmission Plc (SHET) and Scottish Power Transmission Limited (SPT). This set out the key elements of the price control from 1 April 2021 to 31 March 2026. This included the creation of a regime for assessing large transmission projects deemed necessary during the price control, known as the Large Onshore Transmission Investments (LOTI) re-opener.<sup>2</sup>
- 1.4 More recently, the Government's Energy Security Strategy (ESS)<sup>3</sup> has been issued and sets out a series of steps to accelerate our transition away from reliance on expensive and environmentally harmful fossil fuels. The ESS set out ambitious targets to promote energy security, including connection of up to 50GW of offshore wind capacity by 2030. However, the existing onshore transmission network cannot currently support this substantial growth in renewable electricity generation.

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<sup>1</sup> The terms 'Ofgem', 'the Authority', 'we' and 'us' are used interchangeably in this document.

<sup>2</sup> As set out in special condition 13.3 of the electricity transmission licence

<sup>3</sup> [British energy security strategy - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/british-energy-security-strategy)

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- 1.5 Our existing LOTI framework continues to play an important role in facilitating critical investment in the onshore transmission network, whilst ensuring only the efficient costs of this investment are passed on to consumers. However, given the scale and pace of the required investment, we have looked at how the RIIO-ET2 regulatory framework should evolve to support strategic onshore ET projects being expedited to deliver the Government’s 2030 net zero ambitions.
- 1.6 In December 2022 we published our decision to introduce a new Accelerated Strategic Transmission Investment (ASTI) framework (our ASTI decision)<sup>4</sup>. The new ASTI framework streamlines the regulatory approval process, compared with the LOTI regime, by reducing the number of regulatory assessment stages<sup>5</sup>. It also allows the TOs earlier access to project funding to accelerate delivery of ASTI projects. Our ASTI decision also introduced a strong output delivery incentive (ODI) that rewards/penalises the electricity TOs for early/late delivery respectively.
- 1.7 This document is intended to provide further information on the ASTI arrangements, specifically regarding the operation, requirements and governance of the ASTI Pre-Construction Funding (PCF) Re-opener and Price Control Deliverable (PCD),<sup>6</sup> the ASTI Re-opener and PCD<sup>7</sup> to provide construction funding for ASTI projects, and the ASTI ODI.<sup>8</sup>
- 1.8 This document is to be read in conjunction with Special Conditions 3.40, 3.41 and 4.8 of each of the TOs’ electricity transmission licences and the following associated documents:
- **RIIO-2 Final Determinations ET annex** (This document sets out our RIIO-2 policy in relation to the LOTI re-opener):  
[https://www.ofgem.gov.uk/system/files/docs/2020/12/final\\_determinations\\_et\\_annex.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/12/final_determinations_et_annex.pdf)
  - **LOTI Re-opener Guidance and Submissions Requirements Document** (This document sets out the detailed arrangements for the LOTI re-opener):

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<sup>4</sup> [Decision on accelerating onshore electricity transmission investment | Ofgem](#)

<sup>5</sup> Relative to the existing Large Onshore Transmission Investment (LOTI) framework currently used to assess and fund large ET projects.

<sup>6</sup> Special Condition 3.40

<sup>7</sup> Special Condition 3.41

<sup>8</sup> Special Condition 4.8

[https://www.ofgem.gov.uk/sites/default/files/docs/2021/01/large\\_onshore\\_transmission\\_investments\\_loti\\_reopener\\_guidance\\_1.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2021/01/large_onshore_transmission_investments_loti_reopener_guidance_1.pdf)

- **Decision on accelerating onshore electricity transmission investment** (This document sets out our decision to introduce a new ASTI framework and the associated policy and is referred to throughout this document as “our ASTI decision”):  
<https://www.ofgem.gov.uk/publications/decision-accelerating-onshore-electricity-transmission-investment>
- **Special conditions to the Electricity Transmission Licences** (These documents set out the special conditions, which from [insert date] will include the ASTI framework): [Licences and licence conditions | Ofgem](#)
- **Price Control Deliverable Reporting Requirements and Methodology Document**: <https://www.ofgem.gov.uk/publications/price-control-deliverable-reporting-requirements-and-methodology-document-0>

## **2. Introduction**

### **Scope of the ASTI Guidance and Submissions Requirements Document**

2.1 This document provides additional detail regarding the function and operation of the ASTI regime, including the Transmission Operator (TO) submission requirements and the Ofgem assessment and decision process for the following ASTI licence conditions:

- ASTI Pre-Construction Funding Re-opener, Price Control Deliverable and Use It or Lose It Adjustment (Special Condition 3.40) – see Chapter 3
- ASTI Re-opener and Price Control Deliverable (Special Condition 3.41) – See Chapter 4
- ASTI output delivery incentive (Special Condition 4.8) – See Chapter 5.<sup>9</sup>

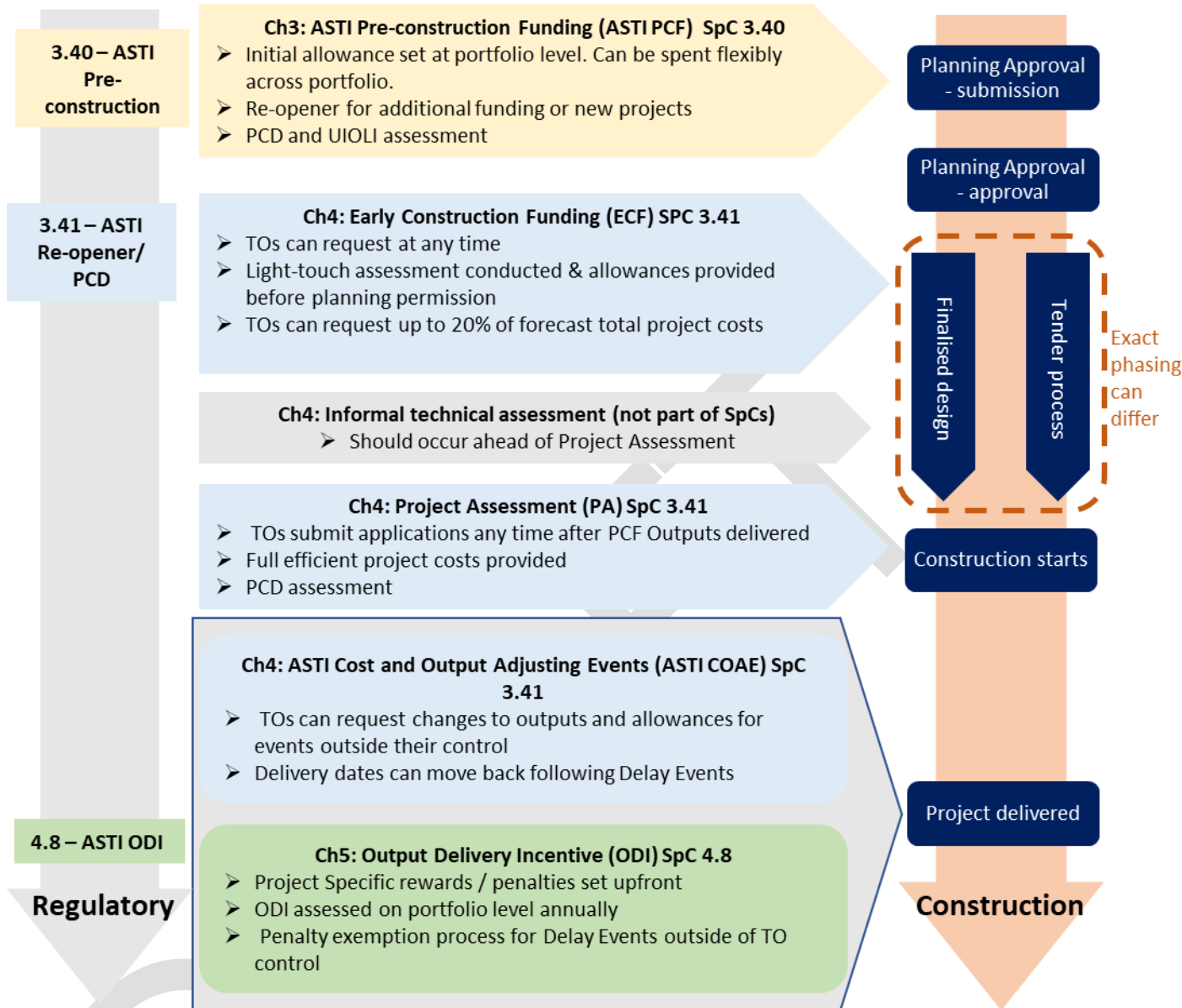
2.2 The ASTI licence conditions require that TOs adhere to the provisions and requirements set out in this document.<sup>10</sup> An overview of the different elements of these conditions and how these relate to the development of a project are set out below in Figure 1.

#### **Figure 1: ASTI Framework Overview**

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<sup>9</sup> Unless otherwise stated, defined terms in this document have the meaning given in the electricity transmission licences of the TOs

<sup>10</sup> Special Condition 3.41, Part I



## Scope of the ASTI framework

2.3 As set out in our ASTI decision<sup>11</sup> and the electricity transmission licences,<sup>12</sup> the ASTI framework will apply to strategic onshore electricity transmission projects that meet the following criteria:

- meets the definition of a LOTI as set out in Special Condition 1.1 (Interpretations and definitions), Part B of the TOs’ electricity transmission

<sup>11</sup> Paragraph 3.2

<sup>12</sup> Special condition 1.1, definition of ‘ASTI’



licences: “LOTI means the assets constituting an investment in the Transmission System, which investment:

- (a) is expected to cost £100m or more of capital expenditure; and
- (b) is, in whole or in part, load-related;

- needs to be operational by 2030 to meet the Government’s ambition to connect 50GW of offshore wind generation; and

there is clear evidence that the expected consumer benefits of applying the accelerated delivery framework to the project exceeds the expected consumer detriment.

- 2.4 The ASTI framework will apply to an initial 26 ET projects identified by the ESO in the Holistic Network Design<sup>13</sup> (HND) and Networks Options Analysis 7 Refresh<sup>14</sup> (NOA 7 Refresh) as required to deliver the Government’s 2030 net zero ambitions<sup>15</sup>, as detailed in Appendix 1 of this document. As set out in Part I of Special Condition 3.41 the TOs must adhere to the guidance and submissions requirements set out in this document in the delivery of these projects.

### **Additional ASTI projects**

- 2.5 There were also several further projects identified in the HND and NOA 7 Refresh that are required to deliver the Government’s 2030 net zero ambitions that were not initially included within the ASTI framework as they were not sufficiently developed.

- 2.6 As noted in our ASTI decision,<sup>16</sup> we will consider including these additional projects within the ASTI framework once the TOs have developed credible delivery plans for them.

#### *Our assessment*

- 2.7 When assessing the projects against the criteria in paragraph 2.3 above, whether we are satisfied that ‘*there is clear evidence that the expected consumer benefits of applying the accelerated delivery framework to the project exceeds the expected consumer detriment*’ before including additional projects within the ASTI framework, we would expect to consider the range of costs and benefits

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<sup>13</sup> [The Pathway to 2030 Holistic Network Design | National Grid ESO](#)

<sup>14</sup> [Network Options Assessment \(NOA\) | National Grid ESO](#)

<sup>15</sup> [British energy security strategy - GOV.UK \(www.gov.uk\)](#)

<sup>16</sup> [Decision on accelerating onshore electricity transmission investment | Ofgem](#)

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considered within the initial assessment (see our ASTI decision chapters 4-6), as well as any other additional industry or project-specific factors relevant to the decision.

### *Process*

For any additional projects to be added to the ASTI framework in accordance with Part C of Special Condition 3.40, we will take the following steps:

- **Step 1 – TO submission:** TOs submit the necessary project documentation (we set out the submission requirements for adding additional projects to the ASTI framework in chapter 3 below)
- **Step 2 – Ofgem assessment:** Ofgem assess the submission against the criteria in paragraph 2.3 above.
- **Step 3 – Consultation:** Ofgem will publish a consultation on accepting/rejecting the project's inclusion within the ASTI framework.
- **Step 4 – Decision:** Ofgem will consider consultation responses and publish its decision.
- **Step 5 – Licence modification:** Ofgem will publish a statutory consultation on modifications as required to Special Condition 3.40 (ASTI Pre-Construction Funding Re-opener, PCD and Use It Or Lose It adjustment), Special Condition 3.41 (ASTI Re-opener and PCD), and Special Condition 4.8 (ASTI output delivery incentive) in line with paragraphs 2.9-2.11 below.
- **Step 6 – Licence implementation:** The required modifications will be made to the conditions in Step 5 and implemented in the TOs' licences.

2.8 In Special Condition 3.40, we will add the project description, associated pre-construction allowance (to be determined following assessment of the submitted project delivery plan, see paragraph **Error! Reference source not found.**) and the delivery date to Appendix 2 (ASTI Pre-Construction Funding Price Control Deliverables) and modify the Total Allowance figure in Appendix 1 (ASTI Pre-Construction Funding Allowance table). Any information that is commercially sensitive and needs to be redacted from the published licences will be included in the ASTI Confidential Annex issued to each TO.

2.9 Where we agree a project should be added to the ASTI framework, in Special Condition 3.41 we will add the project description and delivery date to Appendix 1 with no associated allowances and add the Early Construction Funding (ECF) allowance limit to Appendix 2.

- 2.10 Our expectation is that, for projects added to the ASTI framework, the ODI arrangements and pre-construction funding for each project will be set at the same time (further details on the ODI are found in chapter 5).<sup>17</sup>
- 2.11 In Special Condition 4.8 we will add the project description, the ASTI ODI Target Date, the daily reward/penalty and the incentive cap to Appendix 1. Any commercially sensitive information redacted from the published licences will be included in the ASTI Confidential Annex issued to each TO.

*Setting Values*

- 2.12 In this document we refer to setting values for ASTI Pre-Construction Funding (ASTI PCF) and ECF, and the ASTI ODI penalty / reward cap, as a proportion of total forecast project costs. For consistency, we have used the estimates of total project costs used from our ASTI Decision.<sup>18</sup>

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<sup>17</sup> Our starting position is to set the ASTI ODI for any new projects at the de-minimis value 2% of forecast project costs annually, in line with our ASTI Decision paragraph 7.31. However, where robust information is available, we will also consider any other relevant factors when concluding on an appropriate incentive rate for each project.

<sup>18</sup> The figures used in the ASTI Decision document were taken from the NOA 7 Refresh.

### **3. ASTI Pre-Construction Funding**

#### **Purpose**

- 3.1 ASTI PCF is for the purpose of delivering the Pre-Construction Works<sup>19</sup> in relation to all ASTI projects specified with associated outputs in Appendix 2 of Special Condition 3.40 (ASTI PCF) in the licence.
- 3.2 Pre-Construction Works are the activities undertaken for the purposes of narrowing down design options in order to develop an ASTI project, with the output being submission of all material planning applications. The activities that constitute Pre-Construction Works that the TOs are allowed to incur expenditure on are:
- surveys, assessments and studies;
  - project design;
  - engineering development;
  - stakeholder engagement and consultation;
  - tasks associated with acquiring land rights (which could include permanent rights and/ or wayleaves);
  - planning applications;
  - tender activities; and
  - other activities as may be approved by Ofgem.<sup>20</sup>
- 3.3 For the avoidance of doubt, any funding request for ASTI PCF can cover costs already incurred at the point of application, as well as expected costs that will be incurred in the future.
- 3.4 Activities subject to other funding arrangements, either within or outside of ASTI, will not be eligible for ASTI PCF.<sup>21</sup>

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<sup>19</sup> See special condition 1.1 (Interpretation and definitions) of the electricity transmission licence for the description of all defined terms included in this document.

<sup>20</sup> TOs are to inform Ofgem of their intention to incur pre-construction costs for activities not included in paragraph 3.2 and Ofgem where Ofgem agrees this expenditure is appropriate will provide approval in writing.

<sup>21</sup> For example activities funded under Special Condition 3.15 or with Early Construction Funding provided under Special Condition 3.41.

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## **LOTI PCF**

- 3.5 As explained in our ASTI decision,<sup>22</sup> projects that have already received PCF funding through the LOTI PCF framework<sup>23</sup> are not eligible to receive any further PCF funding through the ASTI framework.
- 3.6 For these projects, the PCF outputs will be modified from the current output “FNC approval” to “approval of all material planning consents” as there is no FNC stage in ASTI (with “approval of all material planning consents” being the closest comparative milestone to FNC in the ASTI framework). The assessment, and funding arrangements remain unchanged and as per the LOTI Guidance and Submissions Requirements<sup>24</sup> document and electricity transmission licence Special Condition 3.15.

## **ASTI PCF**

- 3.7 The starting ASTI PCF allowance for the projects included in our ASTI decision is calculated at 2.5% of the forecast value of each TO’s initial ASTI project, as set out in the ASTI decision.
- 3.8 A re-opener to request additional ASTI PCF can be triggered where costs are expected to exceed the initial allowance by more than the TO’s Materiality Threshold<sup>25</sup> or where additional ASTI PCF PCDs are being added to the framework.
- 3.9 ASTI PCF activity is funded via a PCD, with potential adjustments to allowances for under delivery in accordance with the Price Control Deliverable Reporting Requirements and Methodology Document.<sup>26</sup>
- 3.10 Irrespective of whether the PCD has been fully or partially delivered, any unspent ASTI PCF allowances will be returned to consumers via a Use-It-Or-Lose-It Adjustment (UIOLI Adjustment). Therefore, any underspend against ASTI PCF allowances would not be subject to cost sharing under the Totex Incentive Mechanism (TIM). For the avoidance of doubt, any overspend against ASTI PCF allowances below the TOs’ Materiality Threshold will be subject to cost sharing

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<sup>22</sup> [Decision on accelerating onshore electricity transmission investment | Ofgem](#)

<sup>23</sup> Special Conditions 3.13 and 3.15

<sup>24</sup> [Large Onshore Transmission Investments \(LOTI\) Re-opener Guidance | Ofgem](#)

<sup>25</sup> Set out in Special Condition 1.1 in the licence

<sup>26</sup> [Price Control Deliverable Reporting Requirements and Methodology Document | Ofgem](#)

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under the TIM; costs in excess of the Materiality Threshold can be recovered through the Re-opener.

### **ASTI PCF Re-opener**

- 3.11 Part C of licence Special Condition 3.40 (ASTI Pre-construction Funding re-opener, Price Control Deliverable and Use It Or Lose It Adjustment) details the process to apply for ASTI PCF.

#### *Pipeline notification process*

- 3.12 Special Condition 3.40 does not have any specific windows during which re-opener applications can be made. This is intended to give TOs the flexibility needed to make requests for ASTI PCF at the most appropriate times without risking any delay to project delivery. TOs must notify Ofgem in writing at least 8 weeks ahead of their intended submission dates for a re-opener application and can submit a re-opener application for Ofgem consideration after expiration of the 8-week period. Ofgem will send written acknowledgement confirming receipt of a TO's notice of submission.

#### *Reporting requirements*

- 3.13 Annual reporting requirements on ASTI PCF expenditure and activity will be set out in the RIIO-ET2 Regulatory Instructions and Guidance (RIGs).<sup>27</sup>

#### *Submission requirements*

- 3.14 Where a re-opener application is made to add additional projects, to adjust the allowances or delivery dates for existing ASTIs, a submission must set out the total level of funding that is being sought by the TO.<sup>28</sup> This cost must be broken down into the specific activities (as listed in paragraph 3.2) being carried out across each of the ASTI projects subject to the ASTI PCF arrangements.<sup>29</sup> This breakdown should distinguish between costs already incurred and costs that are expected to be incurred. Where additional funding is required, clear justification must be provided for why the additional costs represent an efficient level of costs for developing the relevant ASTI project to the point of submission of all material

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<sup>27</sup> [Decision on Regulatory Instructions and Guidance \(RIGs\), Transmission Glossary and Regulatory Reporting Pack \(RRP\) to apply during RIIO-ET2 | Ofgem](#)

<sup>28</sup> Other than where a TO is only requesting a re-opener for the default amount of 2.5% of estimated project costs for the addition of a new project. In this circumstance a full assessment of costs across a TOs portfolio does not need to be conducted.

<sup>29</sup> This is all ASTI projects other than those which received PCF through the LOTI mechanism.

planning applications. This should include how the activities will contribute to the acceleration of project delivery.

- 3.15 TOs may submit a re-opener submission where costs incurred on ASTI PCF activities have exceeded, or are expected to exceed, the total ASTI PCF allowance (as per Appendix 1 in Special Condition 3.40) by an amount that is greater than the TO's Materiality Threshold (across the portfolio of ASTI projects included in Appendix 2 of Special Condition 3.40), or where TOs are proposing that new projects are added to the ASTI framework.
- 3.16 TOs may also make a re-opener submission under this condition where they expect a material change to one of the outputs or delivery dates set for PCF PCDs. A submission relating to outputs or delivery dates does not require there to also be a change to expected ASTI PCF allowance. We consider a "material change" to be a significant change to the project routing (for example, changing the location of a new substation a circuit connects into) or significant changes to the project's technical specification. Any changes required for PCF PCD delivery dates beyond the end of RIIO-ET2 will be considered to be material changes.

*Providing ASTI PCF for new projects*

- 3.17 For ASTI PCF submissions relating to new projects, TOs must provide a credible delivery plan showing how they intend to deliver the construction of the project and by which delivery date, including a detailed breakdown of the requested ASTI PCF and indicative construction costs for the project.
- 3.18 We will make our assessment of the re-opener as set out in paragraphs 3.23 to 3.23 before deciding whether to (i) provide pre-construction funding through Special Condition 3.40<sup>30</sup> and (ii) include the project within the wider ASTI framework. For the projects in Table 2 below, if we do not consider it appropriate to provide PCF through the ASTI framework then PCF will be provided instead through Special Condition 3.15, with no requirement for the TOs to re-submit any already-submitted PCF information.
- 3.19 If we assess that it is appropriate to provide ASTI PCF for new projects, we will decide whether to either (i) set allowances based on our view of the specific work required for the new project or projects; or (ii) set allowances at the same

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<sup>30</sup> If we do not consider it appropriate to include the project within the wider ASTI framework at the point the re-opener is submitted we may consider providing only ASTI PCF or providing PCF through Special Condition 3.15 (LOTI PCF)

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average proportion of total estimated project costs across the portfolio of ASTI projects. For example, if adding new projects to the ASTI portfolio we expect to set allowances for them at 2.5% of estimated project cost. However, following a re-opener to increase costs of existing projects above the 2.5% value, we would expect to follow option (i) and set allowances based upon our view of the specific work required for the projects in the portfolio. Our decision on which approach to take remains open and will be informed by the specifics of the projects in question.

- 3.20 Re-openers submitted for new projects do not need to meet the Materiality Threshold. The existing total ASTI PCF allowance set out in Appendix 1 of Special Condition 3.40 does not need to have been spent in full to trigger the re-opener in this circumstance.

*Increasing allowances for existing portfolio of projects (no new projects being added)*

- 3.21 To increase the total ASTI PCF allowance for the existing portfolio of ASTI projects, TOs must submit the required information as set out in paragraph 3.14 and requested allowances must meet the Materiality Threshold as set out in paragraph 3.15.
- 3.22 We will make our assessment of the re-opener as set out in paragraphs 3.23 to **Error! Reference source not found.7.**

### **Ofgem assessment and decision on re-opener requests**

- 3.23 Where a re-opener request for an allowance adjustment is made, we may make an assessment on either (i) the whole portfolio; or (ii) on an individual project basis using the cost information provided, before assessing any additional allowance for the re-opener.
- 3.24 Ofgem's assessment will focus on determining whether (i) the requested ASTI PCF activities are appropriate for the associated outputs; and (ii) whether the relevant costs represent efficient value to consumers. We will consider already-incurred expenditure when determining whether the costs represent efficient value in delivering the PCF outputs.
- 3.25 The onus for making the case to provide the requested funding will sit with the TOs. TOs must submit the required information as outlined in paragraph 3.14. We will set up a supplementary questions (SQs) process as required for any appropriate clarifications before consulting on changes to Appendix 2 of Special Condition 3.40 to amend allowances.



- 3.26 Our ability to make decisions efficiently is highly dependent on the quality and clarity of TO submissions, and responses in any subsequent SQ process.
- 3.27 Modification to the licences to adjust the outputs, delivery dates or associated allowances will be made in accordance with Section 11A of the Electricity Act 1989 (the Act) and follow a consultation period of at least 28 days.

### **Substitutability of allowances**

- 3.28 ASTI PCF is set as a pot of funding that can be used across qualifying projects. This aggregated total allowance is built up to apply across the individual ASTI projects and is reflected in the APCF<sub>t</sub> term included in Appendix 1 of Special Condition 3.40. As explained in our ASTI Decision,<sup>31</sup> the TOs can substitute ASTI PCF allowances between projects and therefore the total allowance in Appendix 1 of Special Condition 3.40 can be spent on Pre-Construction Works at the TOs' discretion in delivering all the outputs in Appendix 2 of that condition.
- 3.29 The following example (Table 1) demonstrates how this might work in the circumstances where a TO spends more than the notional 2.5% of forecast project value on three projects and less on one project. If the overall allowance is not exceeded by the TOs' Materiality Threshold there would not be any basis to trigger the re-opener for additional allowances on the three projects with an overspend as the overall allowance would be sufficient to fund all of the projects.

**Table 1: Substitutability of ASTI PCF allowances**

<b>Project</b>	<b>Allowance (£m)</b>	<b>Expenditure (£m)</b>
Project A	10	14 (+£4m)
Project B	16	20 (+£4m)
Project C	12	14 (+£2m)
Project D	18	8(-£10m)
<b>Total</b>	<b>56</b>	<b>56 (=)</b>

### **ASTI Pre-Construction Funding Price Control Deliverable**

- 3.30 ASTI Pre-Construction Funding PCDs are designed to:

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<sup>31</sup> [Decision on accelerating onshore electricity transmission investment | Ofgem](#)

- ensure that all material planning consent applications are submitted; and
  - provide consumer protection by allowing Ofgem to return allowances to consumers where the PCD is not fully delivered.
- 3.31 The PCD delivery dates are set at the end of the RIIO-ET2 price control period as a suitable point to review delivery of the relevant planning consent applications. Ofgem has taken this approach (rather than specifying specific delivery dates for each project) to avoid the prioritisation by TOs of meeting the specified date, rather than ensuring that any planning application is suitably developed and robust. As such, if a TO does not consider it possible to deliver the PCD output by the end of RIIO-ET2 then Ofgem will consider extending the delivery dates where TOs can provide evidence to support this, particularly in the case of any new projects added to the ASTI condition. This can be conducted either through the re-opener process as set out in 3.16, or set out as part of the next price control.
- 3.32 TOs can also use the re-opener to request a change to the output of a PCD if the scope of a project changes and this results in a change to the requirement for material planning consent applications to be submitted.
- 3.33 The output for each PCD will be listed in Appendix 2 of Special Condition 3.40. Outputs are to be set as the submission of all material planning consent applications or equivalent as the default output. However, if a project does not have any requirements for material planning consent applications, Ofgem will set a different bespoke PCD output on a case-by-case basis.

#### *PCD reporting*

- 3.34 To make an assessment of PCDs and UIOLI Adjustment, Ofgem will require information on expenditure across a TO's portfolio of ASTI projects. Detailed reporting requirements will be set out in the RIIO-ET2 RIGs.

#### *PCD assessment*

- 3.35 The assessment of ASTI PCF PCDs will be made in accordance with Special Condition 9.3 (Price Control Deliverable Reporting assessment principles and reporting requirements) and the Price Control Deliverable Reporting Requirements and Methodology Document.<sup>32</sup> Any allowance adjustments made

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<sup>32</sup> [Price Control Deliverable Reporting Requirements and Methodology Document | Ofgem](#) (appendix 6)

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following our assessment will be made by direction following the process set out in Part E of Special Condition 3.40.

- 3.36 Although ASTI PCF allowances are substitutable, in accordance with special condition 3.40 project-specific allowances will be allocated against each output. This is so that when assessing delivery of PCDs, Ofgem will have a reference value to base the assessment on. For example, if project A has an allowance of £5m and project B has an allowance of £8m, the maximum allowance adjustment following a PCD assessment for these projects (in the case of non-delivery) would be £5m and £8m respectively.
- 3.37 The starting point for the initial ASTI PCF allowance for each project is 2.5% of the forecast project value.<sup>33</sup> and this would be the initial reference value for Ofgem to base a PCD assessment on. However, following any re-opener application and assessment, this value may be updated by Ofgem to reflect an updated representation of spend on each project. This does not mean that TOs may only spend up to this associated amount on each project, rather it is a means of ensuring that all allowances are allocated to outputs for the purposes of the PCD assessment. For example, if project A which had an initial allowance of £5m allocated to it, but following a re-opener had a total of £7m PCF allocated to it, this would become the new reference value for its PCD assessment (£7m being the new maximum allowance adjustment in the case of non-delivery). Full details of the PCD assessment are found in Appendix 6 of the Price Control Deliverable Reporting Requirements and Methodology Document<sup>34</sup>.

#### *Use It Or Lose It Adjustment*

- 3.38 Part of Ofgem's ASTI PCF PCD mechanism is the inclusion of a UIOLI Adjustment. Any unspent allowances will be recovered by Ofgem when making an assessment to determine the term  $APCFRA_t$ . The UIOLI Adjustment will be made after completion of the PCD assessment on a portfolio level.

#### *Cancelled projects*

- 3.39 It is possible that a project might be cancelled after the TOs have received ASTI Pre-Construction Funding, but before the PCD output has been delivered. This could be the result of a change of scope, or the network need for the project falling away.

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<sup>33</sup> Based on data from the NOA7 Refresh

<sup>34</sup> [Insert link]

3.40 If a project is cancelled, TOs should stop work immediately in order to limit consumer exposure to costs on projects that will not be delivered. TOs are required to inform Ofgem of the project cancellation and submit details of any incurred expenditure through the Regulatory Reporting Pack (RRP). Unless agreed by Ofgem, costs incurred on activities that are not listed under paragraph 3.2 above will not be funded. This also applies to the provisional ASTI projects (these are explained below in paragraphs 3.41 to 3.44 and listed in Table 2), meaning that TOs are able to spend on these projects without the risk that efficient expenditure on them would not be recoverable.

### **Provisional ASTI projects**

3.41 There were 8 projects listed in our ASTI decision,<sup>35</sup> which were not included in the initial list of ASTI projects<sup>36</sup>. We concluded that these 8 projects would be eligible for PCF at the point that a delivery plan had been developed for them. These projects are listed in table 2 below and referred to as “provisional ASTI projects” in this document.

3.42 Delivery plans must include:

- the earliest estimated delivery date (where possible with probability estimates);
- the estimated total project cost;
- a brief description of the strategy to meet the delivery date, highlighting any changes needed to current approaches;
- a list of key assumptions, dependencies and risks;
- the TO’s approach to proactively monitor and manage delivery risk and cost to consumers; and
- a high-level timeline setting out the key milestones and regulatory approval points.

3.43 Once the TOs have developed a delivery plan for these projects they can make a request for additional ASTI PCF, as per the process outlined above. Where the development of TO delivery plans identifies that a provisional ASTI project is likely to no longer meet the ASTI criteria, TOs may request pre-construction

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<sup>35</sup> [Decision on accelerating onshore electricity transmission investment | Ofgem](#)

<sup>36</sup> See paragraphs 2.5 and 2.6 above.

funding under the other pre-construction funding arrangements under special condition 3.15.

- 3.44 Efficiently-incurred costs developing the provisional ASTI projects ahead of receiving any PCF allowances are fully recoverable, through either Special Condition 3.40 or Special Condition 3.15. If a provisional ASTI project is cancelled before any allowances are provided but the TOs have already incurred costs developing it, they are to submit a re-opener application to recover efficient costs through Special Condition 3.40.

**Table 2: List of provisional ASTI projects<sup>37</sup>**

<b>Project</b>	<b>Description</b>	<b>TO</b>	<b>Optimal Date</b>
PSNC	New North Wales to South Wales double circuit	NGET	2030
LRN4	New South Lincolnshire to Hertfordshire double circuit	NGET	2030
AC1	R4_2 to Lincolnshire	NGET	2030
AC2	R4_1 to R4_2	NGET	2030
AC3	Fetteresso to SW_E1a	SHET	2030
AC4	SW_E1a to R4_1	SHET / NGET	2030
AC5	Hunterston to T-point	SPT	2030
AC6	Pentir to T-point	SPT / NGET	2030

<sup>37</sup> Additional projects may be added to this table in the future following Ofgem’s review of future rounds of project announcement by the ESO e.g. NOA, CSNP, or HND follow-up exercises.

## **4. ASTI Re-opener and Price Control Deliverable**

4.1 The ASTI Re-opener and PCD condition (Special Condition 3.41) allows the TOs to request construction funding to deliver ASTI Outputs as well as to apply for adjustments to the scope of the ASTI Outputs, allowances and delivery dates following an ASTI Cost And Output Adjusting Event (ASTI COAE)

### **Early Construction Funding (ECF)**

4.2 Part C of the ASTI condition covers the process for awarding ECF.

4.3 ECF refers to allowances, in addition to ASTI PCF, in relation to an ASTI Output to carry out permitted early construction activities ahead of the project receiving planning permission and/or the final costs for the project being set at the Project Assessment (PA) stage.

4.4 Eligible early construction activities could include:

- strategic land purchases
- early enabling works
- early procurement commitments
- other activities approved in advance by Ofgem

4.5 We will only approve other activities where there is a clear justification for why it is in consumers' interests to provide funding for the relevant activity to take place ahead of our cost assessment as part of the PA process, for example where doing so will accelerate the project delivery.

4.6 TOs are able to apply for ECF for each of the ASTI projects. Unless otherwise agreed by Ofgem, the maximum level of ECF that Ofgem will allow is 20 per cent of each project's forecast cost, as indicated in our ASTI decision<sup>38</sup>.

4.7 We consider that the 20 per cent cap strikes the appropriate balance between assisting acceleration and protecting consumers from potentially excessive cost exposure in the unlikely event that a project does not progress to being awarded planning permission.

4.8 Our ASTI Decision stated that we would consider allowing ECF in excess of 20% in exceptional circumstances. This would be where expenditure is justified and necessary in order to accelerate project delivery or where not investing will

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<sup>38</sup> Paragraph 5.28

increase the risk of project delay, and where we are satisfied the consumer benefit of providing additional allowances outweighs the increased risk to consumers should the project not ultimately secure planning permission. Where Ofgem approves additional ECF, we expect that appropriate protections are put in place with the TO's contractors to limit the exposure to consumers if the project in question does not secure planning consent and start construction.

- 4.9 Any funding request for ECF under ASTI can cover costs already incurred at the point of the funding request, as well as expected costs that will be incurred in the future.
- 4.10 Activities subject to other funding arrangements within the RIIO ET2 price control outside of ASTI will not be eligible for funding under ECF.

*TO submission requirements*

- 4.11 Requests for ECF by the TOs can be made at any time provided Ofgem has been notified of the TOs' intention to submit an ECF request 8 weeks in advance of it being submitted (unless an alternative notification period has been agreed by Ofgem). Ofgem will provide written confirmation that a notice of intention to submit an ECF request has been received.
- 4.12 Ofgem should be informed of any ECF request covering costs beyond the 20 per cent cap at the point a TO notifies Ofgem of its intention to submit an ECF request.
- 4.13 An ECF request submission must set out:
- The total level of funding that is being sought by the TO. This funding must be broken down between the specified activities listed in our ASTI decision,<sup>39</sup> with clear explanation and justification for the request of any additional activities beyond those specified in the ASTI Decision.
  - For each ECF permitted activity area<sup>40</sup> (including any additional activities beyond those specified in our ASTI decision, requested by the TO), TOs must set out the specific activities that it intends to carry out, the proposed year-by-year cost profile of the costs to be funded and justification for why it is in consumers interest for the costs to be incurred early.

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<sup>39</sup> Paragraph 5.28

<sup>40</sup> Strategic land purchases; early enabling works; early procurement activities; other activities approved in advance by Ofgem.

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- In the case of strategic land purchases, we expect TOs to provide detail of where the land sits relative to the proposed route corridors and the implications for the delivery schedule of not funding this activity. This should include maps clearly identifying the location of the relevant land and how it interacts with the phasing of the construction work. TOs should also set out their strategies for protecting consumers from funding the purchasing of land that, following the conclusion of the planning process, may no longer be required to facilitate the delivery of the project.
- In the case of early enabling work, TOs must confirm that the relevant activities are able to progress ahead of the planning consent being granted (where relevant). TOs must also demonstrate how the relevant works interact with the phasing of the project's construction works and explain the consequences of the works not progressing on the rest of the project.
- ECF requests relating to early procurement commitments should provide details of engagement with the relevant contractors to demonstrate the implications of the relevant funding not being provided, as per paragraph 4.8 above.

4.14 In the case of all cost areas, TOs must set out the processes and strategy that they will follow to pursue reimbursement of the relevant funding should the project not proceed, and the estimated level of funding they expect to be able to recover in such situation.

#### *Ofgem assessment and decision*

4.15 Ofgem's assessment will focus on the TO submission to determine whether the activities for which ECF has been requested are required for acceleration or to reduce risk ahead of the PA process.

4.16 The ECF process will not consider the efficiency of the costs requested. All costs funded at this stage will remain subject to the efficiency assessment that takes place at PA. TOs should not consider that an ECF determination represents confirmation that we consider the costs incurred, or expected to be incurred under the ECF funding, represent an efficient cost for carrying out these activities.

4.17 The onus for making the case to provide the funding will sit with the TOs. If the evidence requested within this guidance is not provided, TOs cannot expect that their requested level of ECF will be provided. We intend to limit our further assessment to a limited number of clarification questions to ensure that TOs are



incentivised to provide detailed submissions, and also to allow for an efficient review process.

- 4.18 Once we have reviewed and received answers to our clarification questions, we will consult on our proposed findings for a period of four weeks before considering all representations and publishing our decision.
- 4.19 Adjustments to allowances in Appendix 1 of Special Condition 3.41 to reflect ECF will be made under Section 11A of the Act.

*Cancelled projects (when only ECF has been provided)*

- 4.20 It is possible that a project might be cancelled between the point the ECF is finalised and when the project is expected to proceed to PA. This could, for example, be the result of a failure to secure planning consents, or the network need for the project falling away. In these cases we would expect all costs that can be returned to consumers to be pursued by the TOs.
- 4.21 In the circumstances outlined in paragraph 4.20, TOs must:
- stop work as soon as it is safe and practical to do so in order to limit consumer exposure to costs on projects that will not be delivered;
  - submit a PA submission to Ofgem setting out the efficient costs that will be incurred incurred until demobilisation; and
  - We expect that any land strategically purchased for the project is sold, with the proceeds being netted off against the TO's totex, unless otherwise agreed by Ofgem. Any reasons not to sell the land should be included in the TO's PA submission for consideration by Ofgem. All costs incurred on activities that are not covered by the ECF decision will not be funded.
- 4.22 When a project is cancelled, the PA will follow the same process as any other PA, except outputs will not be set for the project, and only costs efficiently incurred on permitted ECF cost areas up to the level funded in the ECF decision will be awarded.

**Reporting requirements / technical assessment**

- 4.23 Under the LOTI framework the Initial Needs Case (INC) and Final Needs Case (FNC) assessment stages provided Ofgem with a formal opportunity to scrutinise the TOs' optioneering and project design choices ahead of submission of an application for a PA Decision. Our ASTI decision streamlined the LOTI process by removing these assessment stages in order to accelerate delivery of strategic

onshore projects, however although there is no longer a formal INC/FNC assessment, it is still important that Ofgem is able to conduct an engineering technical assessment to scrutinise optioneering around design choice to ensure that:

- (a) the outputs and project specification being delivered are optimal and in consumers' interests; and
- (b) any concerns around whether the network solution being progressed represents the optimal solution are raised as early as possible in the project's development to limit the scope for delays.

- 4.24 Where possible, we consider that the most opportune time to assess the optioneering is when the TOs make an application for ECF, as by this point, we would expect projects to be sufficiently developed that optioneering analysis has already been undertaken.
- 4.25 We recognise that there may be circumstances where this is not possible, and in these cases, we consider the annual Regulatory Reporting Pack (RRP) submissions can be used for the TOs to report on the assessment that underpins what they are taking forward into the planning process, for example before any stakeholder consultation or planning application, depending on the stage of project development. We would also expect close engagement with the TOs throughout the project development stage ahead of PA so we can understand what consideration is being given to optioneering and project design and to ensure any issues that arise can be considered and addressed in a timely manner.
- 4.26 For the avoidance of doubt, it is not a formal requirement for a TO to include option consideration around design choice and detailed designs as part of any ECF submission and we will assess any request for ECF on the basis of the activities that ECF funding is being requested for.

#### *Economic justification*

- 4.27 The INC under LOTI requires that the ESO provides a CBA to determine the underlying need for the project and to justify the option chosen by the TO. Our ASTI decision made clear that we approve the need in principle for the options proposed by the ESO in the Networks Options Analysis (NOA) 7 and Holistic Network Design, without endorsing specific design choices. As such, rather than a full ESO CBA we would expect to see instead a comparative economic assessment of different design options that justifies the option chosen by the TOs as the most economic and efficient means of delivering the required network benefit.

4.28 Where there is any trade-off between the cost of a specific option and delay impacts, we expect the TOs to use the established delay costs for the relevant projects that were used to set the ODI rather than triggering a wider piece of work for the ESO which would take a significant amount of time to develop and could impact project delivery timelines.

### **PA Decision**

4.29 TOs can apply for a PA Decision for the full construction costs for ASTI projects:

- (a) at any time once ASTI PCF outputs have been delivered; or
- (b) as agreed in advance by Ofgem

4.30 Where a TO intends to apply for a PA before the ASTI PCF output has been delivered, it must satisfactorily demonstrate to Ofgem:

- (a) why it is appropriate to undertake a PA at this point;
- (b) the consumer benefit in undertaking a PA at this point; and
- (c) any risk to consumers or to project delivery timelines by not undertaking a PA at this point.

4.31 We will aim for the timing of final decision on PA to align with the granting of material planning consents. This is to ensure that TOs and their contractors have confidence in the funding available for a project when they begin construction, and ensures our decision is able to consider the final decision of the planning inspectorate. As such, whilst we are comfortable receiving PA submissions once the material planning consents have been submitted, we would expect to agree an assessment timeline with TOs ahead of any submission.

4.32 TOs must notify Ofgem no less than 3 months ahead of the intended submission of an ASTI PA Decision request. Where a request is being made before the ASTI PCF output has been delivered, this notification must also include information in accordance with paragraph 4.35. Ofgem will then confirm a submission date with the TOs.

4.33 The PA Decision determines the detailed output to be specified in the PCD, as well as the efficient allowance to deliver the project, including the efficient costs of construction, risk contingencies, project management and any other elements of delivery.

## **TO submission requirements**

- 4.34 The PA under the ASTI framework remains consistent with PA under the LOTI framework and the same information submission requirements for LOTI (as set out in Chapter 6 of the LOTI Re-opener Guidance and Submissions Requirements Document)<sup>41</sup> will also apply to ASTI projects. These information submission requirements are set out below.
- 4.35 TOs are required to provide the information and evidence in the format stipulated below.
- 4.36 As we progress with our assessment of the submission, we may require the TOs to provide us with additional information or documentation.
- 4.37 TOs must submit detailed plans and information showing the TOs' readiness to proceed with the proposed ASTI project and showing that the proposed costs of delivering the output are efficient. Moreover, TOs must submit details on the technical design, a delivery strategy, and details of how the TO will manage risk. All relevant information must be provided as part of a single submission, unless a staged approach to information provision is agreed in advance by Ofgem. As such, the TOs should include all relevant documents referred to within the submission.
- 4.38 The TOs must engage with Ofgem during the period leading up to a PA submission to help ensure that its submission will enable us to conduct an effective assessment.

### ***Submission structure***

- 4.39 The PA submission must be clearly structured and provide a robust case for the costs to be funded. The TO must provide the following at a minimum (additional information submitted beyond the items listed below must be relevant to the project and the TOs' case for cost allowances):
- A submission narrative
  - Main cost spreadsheet
  - Supporting cost spreadsheets, where relevant
  - A detailed technical summary

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<sup>41</sup> [Large Onshore Transmission Investments \(LOTI\) Re-opener Guidance | Ofgem](#)

- Relevant procurement documents, such as evaluation reports and analysis
- Where appropriate, all major signed contracts and details of final offers (immediately prior to signing)
- Delivery and risk management strategies
- Project risk register
- Any other relevant associated evidence

*Submission narrative*

4.40 The purpose of the narrative is to explain the structure of the submission, summarise the project costs and tender processes at a high level, and provide a general overview of the project. This document must provide a clear rationale for all major project decisions that have been made, and any assumptions that impact project costs must be clearly explained in the narrative. Explanations must be made in areas that might drive costs away from industry benchmarks. It must be a clear document that provides complete transparency on the project's history and its costs.

4.41 The narrative may include, but need not be limited to:

- An overview of the project and its history, as well as expected project timelines;
- A detailed technical summary of the project, including justification for all major technical decisions;
- A summary of the tender process, the selection criteria for bidders and an overview of key procurement decisions that have been made to date;
- Details of land ownership;
- An overview of the project's risk mitigation strategy, including details on key project risks and key decisions regarding risk allocation (between contractors(s) and employer);
- An overview of the developer's resourcing estimates for the construction of the project;
- A detailed description of the project costs, including an overview of any assumptions that have gone into the costs;
- Evidence that the costs are efficient, e.g. through cost benchmarking, market testing, or competitive tendering;

- An explanation of any changes in costs from previous submissions to Ofgem;
- Clarity on which contracts have been awarded to date and a timetable for those which are to be awarded in the future;
- Details of the structure of the overall submission, including a comprehensive reference guide of any associated documents (e.g. studies) and their relevance in the submission; and
- information on the business structure, where relevant (e.g. establishment of subsidiary companies), including but not limited to:
  - legal form of the ownership and operational vehicle, and how this fits within existing ownership and licensing framework;
  - the currency that the project and company accounts will be denominated in; and
  - whether contracts are procured on a joint or individual basis between the TO and any associated developers.

*The main cost submission*

4.42 The TO must provide a breakdown of all costs and cost schedules associated with the project in spreadsheet form. This main cost spreadsheet should include a summary tab of the entire project construction costs and separate tabs/sheets with a cost disaggregation for each asset type (e.g. overhead line). These high-level costs should be indexed to supporting spreadsheets (or tabs in the same spreadsheet) to show the calculations and assumptions that have been used (including relevant units, price bases and time profiles). These supporting spreadsheets should cross refer to any supporting contract terms and quotes, studies, reports or other relevant documents that provide the evidence base. Any source data from the contractor should be provided to Ofgem in original format.

4.43 Within the main cost spreadsheet, a clear indication of the ‘firmness’ of each cost must be provided. Our classification for this ‘firmness’ is as follows:

**Table 3: Cost information submission requirements**

	<b>Classification</b>	<b>Description</b>	<b>Supporting documentation required</b>
1	Fixed	(i) The cost has been incurred, is not subject to change and has supporting	Contract/bill/tender with supporting documentation of payment made. Fully auditable if needed.

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		documentation matching the amount. (ii) Cost is fixed but not yet committed to by the TO	
2	Agreed, but re-measurable	The cost has been agreed or estimated, but is subject to change according to a clear and agreed variation process. Changes only driven by unforeseeable circumstances.	Contract/bill with supporting documentation of payment made/to be made. Fully auditable if needed.
3	Agreed, but will be re-measured based on known future information received	The cost has been agreed or estimated, but will be subject to change due to clarifying the scope of works or due to additional surveys and assessments being undertaken. As above, changes should follow a clear variation process.	Contract/bill with supporting documentation of payment made/to be made. Rates auditable, volumes subject to change based on quantifiable and foreseeable factors.
4	Agreed, but indexed	The cost has been agreed or estimated but will be subject to indexation where change is foreseen but there is no change to project scope.	Contract/bill with supporting documentation of payment made/to be made. Rates auditable, volumes subject to change based on quantifiable and foreseeable factors.
5	Estimated	Cost estimated on the basis of assessments and actual surveys and using experience and examples from other projects.	Spreadsheet with the calculations (methodology), assumptions and evidence base. Emails/minutes of meetings with specific mention of the variables that have been used in calculating these estimates, the person and company providing the calculations and information. List of surveys done as well as documentation of the surveys.

5	Early estimate	Costs estimated through modelling cost ranges from different projects and past experience.	Spreadsheet with the calculations (methodology), assumptions and evidence base. Emails/minutes of meetings with specific mention of the variables that have been used in calculating these estimates, the person and company providing the calculations and information. List of surveys to be performed to increase the confidence of the cost estimates.
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*Technical summary*

- 4.44 A technical summary must be submitted detailing the scope of the project. For example, this would cover the route (e.g. maps, including of any known utility crossings etc.) and landing points. Each area must be indexed to the supporting documentation.
- 4.45 The high-level optioneering for ASTI projects has already been undertaken by the ESO and the needs case for the ASTI projects as specified in the HND and NOA 7 Refresh was accepted by Ofgem in the December ASTI Decision. Therefore, we expect the TO submissions to focus only on the detailed network and construction design, such as the project routeing and technical engineering specification.
- 4.46 At a minimum, the technical case should provide:
- A description of the construction works.
  - Details of any changes in design from previously submitted information, with explanations and associated evidence, if appropriate.
  - An appropriate level of detail on technical design (e.g. substation layout) and construction techniques to be used in the project, including an explanation and justification for all major technical decisions that have been made for the project. We expect more detail would be provided if design and/or construction activity is technically challenging, novel, or a cause for divergencies in cost relative to industry benchmarks.
  - Detail on any optional capability that is included in the technical proposal and justification for its inclusion.



4.47 TOs should also propose outputs for the project, to be considered by us for specification in the PCD, and a clear overview of the project scope.

*Information on procurement and contracts*

4.48 TOs must provide all relevant procurement and tender information that demonstrates the scope and efficiency of the procurements process(es) and the associated works and costs must be included as appendices or supporting documents. The information should present how many bids were received, on what terms and prices, and the process that was followed and justification applied for selecting a preferred bidder, as well as deselecting the others. The TO must also provide a clear document register that details all of the documents associated with the procurement process(es). The following information should also be provided:

- Project specifications (what was tendered).
- Original Invitation To Tender (ITT) issued. We may ask for full copies or parts of the tenders returned.
- Documents from any additional rounds of tendering, with description of any changes to the ITT or the tenders and a comparison table to clearly see a summary of the bids and how they changed.
- Outline of any relevant award criteria or negotiations in the selection process.
- Justification for the chosen contractor(s) in the form of a standardised and quantified comparison. Clear estimated value ranges have to be presented for “difficult to quantify” selection criteria.
- Any variation orders since signing major contracts.
- A summary table of the entire procurement process to show the chronological sequence of events and actions, including all the dates, actions taken or comments by the contractor and actions taken or comments by the developer.
- Signed contracts for all major construction sub-projects.

*Delivery and risk management strategies*

4.49 The TO must outline its approach to delivery and risk management. This should include:

- A description of the delivery model and a detailed delivery plan/schedule with key dates and critical paths clearly identified.
- Evidence of readiness to proceed, e.g. details of delivery team structure, roles and responsibilities.
- Details of the company’s previous experience in managing similar projects and how learning from previous projects (if applicable) will inform proposal, e.g. lessons learned from previous risk mitigation strategies.
- The delivery risk profile of the proposed project, and an assessment of the key risks, and uncertain costs. An up-to-date risk register must be included along with details of how the risk register has been derived and the process for updating it (including audit trail).
- The risk mitigation strategy and risk sharing arrangements, including what costs and risks have been included in supplier contracts, and why this represents an efficient level. All incentives in the contracts to encourage the supplier to deliver on time and to budget must be highlighted, e.g. arrangements to pass through any potential regulatory penalties to the supplier through the contract.
- Details on the level of contingency risk that is included in the proposed costs and justification for why this is an appropriate level given other risk sharing mechanisms such as RIIO-T2 Totex Incentive Mechanism (TIM) sharing factor and the ASTI COAE provisions included in Special Condition 3.41.
- A summary of the insurance strategy and any signed or near-signed contracts. This should include what factors are insured against.
- Information should be provided on the TO’s policies (and project policy, where different) for managing risks, hedging and foreign exchange, and cost overruns or delays.
- The project’s risk register must display a clear indication of how the costs associated with this risk register informed the project’s cost submission. For each of the project’s risks, the risk register should demonstrate, as a minimum, the areas outlined in Table 4 below.

**Table 4: TOs’ risk register**

Item	Description
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**Guidance** – (Draft) Accelerated Strategic Transmission Investment (ASTI) Guidance and Submissions Requirements Document

Project area	Which part of the project the risk relates to e.g. subsea cable.
Risk category	For example – weather downtime.
Description of risk	A description and rationale behind the risk, including: <ul style="list-style-type: none"> <li>• An explanation of what the risk relates to.</li> <li>• Why it is appropriate for the risk to be included within the register/submission.</li> <li>• Whether or not the employer is solely responsible for this risk, or if it is shared with the contractors, as well as a justification for this decision.</li> <li>• If it is a shared risk, a reference should be made to the relevant contract clause.</li> </ul>
Action	What actions have/will be taken towards the risk and how will the risk be monitored
Mitigations	What actions will/have been taken to mitigate the risk, with associated cost (estimates)
Risk identification date	Date when the risk was identified
Risk owner	Developer or shared
Risk owner rationale	Rationale why the party owning the risk has been identified as such
Risk expiry date	Date when the risk is due to materialise or expire
Associated costs	Minimum, most likely and maximum associated cost for the risk
Cost method	An explanation of the assumptions and/or calculations that have been used to derive the minimum, most likely and maximum cost values.
Probability	Probability of the risk occurring
Reference	Reference(s) to any supporting documents (or sections within documents) that will support the details set out within the risk register.

*Associated documents*

4.50 Alongside the main documents mentioned above, as part of its submission the TO should also provide any supporting documents or evidence that it believes would help explain and justify its cost submission.

4.51 Any supporting documentation should cover, but not be limited to, the following:

- Project management details, including hours worked/to be worked and rates used.
- A summary table to provide references (name, date produced, supplier, report name and description of report objective) for any supporting third party reports, including:
  - Scope/technical drawings
  - Design and engineering studies
  - Site surveys and evidence of these being passed to relevant contractors
  - Technical equipment testing reports
  - Route and site selection reports
  - Any relevant consultant reports
  - Stakeholder engagement
  - Any cost allocations and the methodology used
  - Any related party margins (with linkages to the completed cost templates)
  - Any hedging (eg forex), or hedging gains/losses
  - Signed targets or forecasts of project internal rate of return (IRR).

*Ofgem assessment and decision*

4.52 We expect our PA process to usually comprise the following aspects.

4.53 *Communication and engagement* - discussions between the TO and Ofgem will be held throughout the PA process to ensure that we understand the rationale behind the submitted costs, as well as the project's scheduled activities. We require TOs to engage with us in the months leading up to their submission to ensure that the submission we receive is of the quality that we expect.

4.54 *Initial review* – an initial review of the PA submission to ensure the necessary information has been provided by the TO. If we believe that the TO has not provided all of the information necessary for us to carry out our assessment, we will engage with it to ensure that we receive all relevant information needed for us to complete our review.

4.55 *Full information review* – once we are satisfied with the TO's submission, we will undertake a thorough review of the project's costs, alongside its technical

characteristics. This will include comparing the project's costs to other projects, as well as multiple rounds of Supplementary Questions (SQs). The purpose of the SQ process is to capture any clarifications sought by us on project-specific issues to ensure a clear and complete basis for our assessment.

4.56 The above is an outline of the key aspects that we will consider as part of our PA, but other aspects may be included as appropriate.

4.57 As part of our assessment, we would expect to consider a number of issues, including but not limited to:

- Whether there is sufficient detail on the technical design to demonstrate that the costs are efficient and that any optional capabilities included in the proposal represent long-term value for money for consumers<sup>3</sup>
- The robustness of the TO's process for procurement and selection, and whether this process had been efficiently applied and could be expected to lead to an efficient market outcome.
- The efficiency of the proposed costs, taking into account the conclusions on the above and any additional detailed cost assessment including benchmarking of specific elements where comparable data is available, and any relevant current market information supplied by the TOs.
- The evaluation of risks, and the appropriateness of the proposed risk management strategy including the allocation of risks and the associated costs.
- The appropriateness of the construction programme and progress made towards being ready to proceed in the proposed timescales.

4.58 Where we have already assessed the need for activities already funded through ECF as part of the ECF assessment we will not re-assess this at the PA stage; our assessment for these activities will focus only on cost efficiency.

4.59 As mentioned above, our assessment will include undertaking detailed benchmarking analysis of the project's costs where benchmarking is considered appropriate given the information available. We will also take account of information provided or gathered on current market conditions.

4.60 The benchmarking exercise consists of comparing the TO's submitted costs with those of comparable projects, ensuring that we take into consideration aspects such as the technical characteristics of the project. The costs are disaggregated to enable us to analyse costs on an asset level e.g. onshore cable.

- 4.61 Our analysis demonstrates how the costs submitted by the TO for the various assets compares with comparable projects. This enables us to identify areas of the developer’s submission where costs are higher than anticipated, however we note that benchmarking may not be appropriate where there are high levels of cost volatility.
- 4.62 The main purpose of our benchmarking is to guide our assessment, rather than as an absolute determinant of allowable costs. Where this highlights specific costs as a concern, further analysis is conducted to determine whether these costs would be, or were, incurred in an economic and efficient manner. TOs are given the opportunity to explain why their costs may differ from industry averages derived from similar projects. In the absence of appropriate evidence to justify these differences, we may use benchmarking data to inform our view of economic and efficient costs where we consider benchmarking to be appropriate given the information available. We would consider fully tendered costs through a robust competitive process as an alternative mechanism in establishing efficient costs.
- 4.63 In addition to the benchmarking of the project’s assets, we also conduct further analysis to compare other aspects of the TO’s submission to our datasets of historical projects. We will undertake high-level comparisons of aspects such as resource costs and risk budgets. We will also undertake comparisons of more granular costs, and discuss any concerns or issues with the TO.
- 4.64 We will consult stakeholders on the issues considered in our assessments. In general we will consult for a minimum of 28 days. We will consider stakeholder responses before finalising our views on the project allowances.

*ASTI Output and Associated Allowances for the Price Control Deliverable*

- 4.65 After considering responses to the consultation we will publish the Authority’s decision on the proposed project.
- 4.66 The detailed ASTI Output and associated allowances will be implemented into the TO’s electricity transmission licence via a modification in accordance with Section 11A of the Electricity Act and as per the arrangements set out in Special Condition 3.41.
- 4.67 The adjustment to the TO’s RIIO-ET2 allowed expenditure determined through the ASTI arrangements will not include any associated Pre-Construction Works which are funded in accordance with Special Condition 3.40.
- 4.68 Decisions on full allowances for ASTI projects following PA will replace any ECF allowances previously included in Appendix 1 of Special Condition 3.41.

- 4.69 Following a PA, we will set allowances equal to actual incurred outturn costs for the years prior to the PA, and profile the remaining allowances on a pro-rata basis based on the forecast cost profile submitted by the TOs.
- 4.70 Where a project has been delayed and we agree to an ASTI ODI Penalty Exemption Period following a Delay Event, we will modify the delivery date in Appendix 1 of Special Condition 3.41 to change the date by a period equal to the ASTI ODI Penalty Exemption Period following a statutory consultation. The TOs are not required to resubmit any additional information or request an adjustment to Appendix 1 through the ASTI COAE process (see below).

#### *Alternative approaches to Project Assessment*

- 4.71 There will be a large volume of ASTI projects that will need to be assessed in a relatively short period of time in order not to cause delays to project delivery. We also recognise that TOs' procurement strategies to mitigate supply chain constraints may mean that we have to undertake a PA or cost assessment that departs from the approach detailed above.
- 4.72 We do not yet know what a different project or cost assessment may look like and are continuing to engage with the TOs to fully understand what they require in terms of the regulatory assessment and cost assessment approach. We are open to adopting different approaches provided the TOs can demonstrate to us that doing so is in consumers' interest.
- 4.73 Until we know what form any alternative assessment would take or what any alternative cost assessment model would look like we cannot say what level of confidence we would have in the cost allowances provided to the TOs. Therefore, should we decide to adopt a different approach, we may also consider additional consumer protection measures, for example a reduced sharing factor under the TIM or an ex-post cost efficiency assessment.
- 4.74 We will consult on any proposed changes to the ASTI framework ahead of introducing any additional consumer protection measures. We will also consult on amending this document as necessary to reflect any changes to our cost assessment approach once further information becomes available.

#### **Delivery of ASTI Outputs**

- 4.75 The TOs are required through Standard Condition B15 (Regulatory Instructions and Guidance) to report annually during the construction phase on their expenditure and progress in delivering the ASTI Outputs. As part of this annual

reporting the TO must provide an update on the status of the project delivery programme against the project delivery plan. This must include an explanation of the divergences in expenditure or project milestones or concerns that the TO has about delivery progress.

- 4.76 A TO may seek an adjustment to the allowed expenditure, ASTI Output or delivery date through the provisions in Special Condition 3.41 for an ASTI COAE. More information on the ASTI COAE process is set out below.
- 4.77 Ofgem will monitor progress against the ASTI Output based on information provided in the TOs' annual regulatory report under Standard Condition B15.
- 4.78 Once the ASTI Output has been delivered, the TO should confirm delivery of the ASTI Output as specified in Special Condition 3.41 and must provide evidence (through an independently verified report) to confirm that the ASTI Output has been delivered and the exact date of delivery.
- 4.79 We consider a project to be delivered when the asset(s) has been made fully available for operational service and configuration by the ESO and been successfully energised. This will be after the successful completion of all necessary asset testing and trials.
- 4.80 TOs are required under Part B of Special Condition 3.41 to ensure that the assets delivered under ASTI are operable and available to the ESO for an acceptable period of time after the project has been delivered, as specified in Appendix 2 of that condition.
- 4.81 Due to the different nature of assets being delivered between ASTI projects and the innovative technologies being used, we do not consider it appropriate to set a single performance standard that all projects are obliged to achieve and will instead set a bespoke minimum availability standard for each project following PA.
- 4.82 The minimum availability standard is intended as a backstop to ensure consumers are protected against severe asset faults and will be set below average system performance levels for comparable assets. We recognise that faults are more likely to occur at the beginning of an asset's life and intend to stagger the availability standard for a period of 24 months from when the project is delivered:



**Table 5: ASTI project minimum availability standard**

<b>Period after project delivery</b>	<b>0-6 months</b>	<b>6-12 months</b>	<b>12-24 months</b>
<b>Asset availability (%)</b>	X%	X%	X%

- 4.83 For the purposes of assessment of compliance with the licence obligation, we will exclude any outage periods required by the ESO or caused by third parties, and routine maintenance, when determining whether the availability standard has been met or not.
- 4.84 We will review the TO’s performance of the delivery of the ASTI Output. If a TO does not deliver an ASTI Output by the delivery date, we would expect the TO to explain to us proactively why and to provide plans for progression. Failure by a TO to deliver an ASTI Output by the delivery date could lead to a penalty under the ASTI output delivery incentive (Special Condition 4.8, see below).
- 4.85 The ASTI ODI Target Dates have been set 12 months after the ESO’s required delivery date. Each project included in the ASTI regime has a supporting delivery plan from the TOs as per their September delivery plan submissions. The ASTI ODI Target Dates have been designed to reflect an even, or better than even, chance of on-time delivery once relevant ODI protections/ Delay Events are considered.
- 4.86 For this reason, we would not automatically consider enforcement action, in the first instance, for projects being delivered after the ASTI ODI Target Date, (as extended by any Delay Events), even though delivery after that date is a breach of a licence condition. A key consideration would be how late the project was delivered relative to the required date. We would also want to consider in more detail the reasons for that late delivery.
- 4.87 A non-exhaustive list of factors that we would consider might include:
- Whether the failure to meet the licence obligations is the result of serious deficiencies in the performance of a TO’s project initiation and management processes; or
  - Whether such failure arose due to serious deficiencies in the performance of any contractor acting on a TO’s behalf (for which the TO would be held responsible); or
  - Whether it appears that a project has not been delivered by the ASTI ODI Target Date (as extended by any Delay Event) as a direct result of the TO prioritising resources on other ASTI projects to inappropriately optimise

their overall financial position under the ODI in a manner that does not serve consumers' interests.

- 4.88 Having undertaken an initial assessment of the factors underlying the delay to delivery of the project and/or any other problems arising, where appropriate we would take further action, including referring the case for possible enforcement action. Any such enforcement action would apply Ofgem's case opening criteria, in line with our enforcement guidelines. Any financial penalty set as a result of enforcement action would be set on the basis of resulting consumer detriment minus any monies recovered or due to be recovered via the ODI penalty.
- 4.89 It is well understood under common law that whilst contractual rights and benefit may be assigned, obligations and burdens are not. On this basis, having sub-contracted any part of its responsibilities does not stop TOs having to comply with their regulatory obligations. On this this basis, TOs are responsible for any failings to deliver, including where it engages third parties. TOs are best placed to manage these risks rather than consumers. Therefore, we do not consider it appropriate to treat issues differently based on whether the TO does the work in-house or uses an external contractor. This helps to ensure that the TO takes appropriate care in the selection and oversight of their contractor(s).

### **ASTI Cost And Output Adjusting Events (ASTI COAEs)**

- 4.90 An ASTI COAE refers to an event that is outside of the TOs' reasonable control and which they could not have economically and efficiently planned a contingency for which has a material impact on the scope or cost of an ASTI Output. The following (non-exhaustive) list of events could potentially be considered ASTI COAEs provided, in relation to impact on an ASTI Output's cost, they meet the criteria explained in paragraph 4.90 below:
- delays in obtaining planning approval and consents
  - acquisition of land / necessary land rights via compulsory acquisition
  - delays regarding seabed leasing or agreements for interaction with other third-party infrastructure
  - war, hostilities, or terrorist events
  - extreme weather conditions (lower than 1 in 10 probability)
  - contractor/supplier/manufacturer insolvency or unavailability
  - livestock epizootic

- significant protestor action
- legal challenge to procurement process by prospective contractor
- material changes in law, regulation, and the international treaties applicable to the UK
- availability of transmission system for build, testing and outages (eg if ESO calls planned action at short notice)
- unforeseen and significant ground or seabed conditions
- unavailability of equipment or capacity globally in supply chain
- unforeseen unexploded ordinance mitigation
- significant archaeological discoveries
- significant change to project scope
- correlated delay in delivery of interlinked projects
- actual efficient costs of project delivery are at least +/-10% of allowances

4.91 Where a TO considers there has been an ASTI COAE(s), it may apply to Ofgem to amend the allowance of a project if:

- the event has caused expenditure to increase or decrease by at least 10% (expenditure impact) relative to the allowance in Appendix 1 of Special Condition 3.41, or by at least such other percentage as the Authority may direct (calculated before the application of the Totex Incentive Strength); and
- the increase or decrease in expenditure is expected to be efficiently incurred or saved.

4.92 During the PA stage, we may consider the value of the expenditure impact threshold, including whether to make any changes to the standard 10% threshold set out in paragraph 4.91 for the specific ASTI output.

4.93 Our ASTI decision stated that the ASTI COAE mechanism could be used to adjust allowances '*where efficient outturn costs deviate +/-10% from provided allowances*'.<sup>42</sup> Where efficient outturn costs are more than 10% higher than allowances, we expect the TOs to request additional funding through the COAE

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<sup>42</sup> [Decision on accelerating onshore electricity transmission investment | Ofgem](#) para 5.41

mechanism. Where efficient outturn costs are more than 10% lower than allowances, we will consider whether it is appropriate to make an allowance reduction as part of the PCD assessment.

*ASTI COAE application process*

4.94 The TOs must make any ASTI COAE application to Ofgem as soon as is reasonably practicable after the ASTI COAE has occurred.

4.95 ASTI COAE applications must:

- be made in writing;
- include detailed supporting evidence that an ASTI COAE meeting the requirements set out in paragraph 4.90 has occurred;
- set out any amendments requested to the ASTI Output or associated allowances in Appendix 1 of Special Condition 3.41;
- explain the basis of the calculation for any proposed adjustment to the outputs or allowances in Appendix 1 of Special Condition 3.41;
- include a statement from a technical adviser, who is external to and independent from the TO, whether, considered in the context of the value of the ASTI Output, the proposed adjustments to the ASTI Output or associated allowances fairly reflect the effects of the ASTI COAE;
- include an update to the submission narrative provided in the PA submission;
- include an updated main cost spreadsheet to the extent this is reasonably practicable;
- include updated supporting cost spreadsheets, where relevant;
- include a detailed technical overview of any changes to the project's technical scope;
- include an updated risk register; and
- detail updates to delivery strategy and risk management.

4.96 Any modifications to Appendix 1 of Special Condition 3.41 further to an ASTI COAE is to be made under section 11A of the Act.

*Cancelled projects (after PA Decision)*

- 4.97 It is possible that a project might be cancelled between allowances being provided following a PA Decision and the project's expected delivery date, for example if the ESO determines that the network need has fallen away.
- 4.98 In these cases, costs that have been efficiently incurred by the TO up until the point the project is cancelled are fully recoverable by the TO and any unspent allowances are to be returned to consumers.
- 4.99 Should a project be cancelled after the PA Decision the TOs must notify Ofgem as soon as is practicably possible and cease work on that project. Ofgem will then instruct the TO whether:
- (a) to submit an ASTI COAE application to remove the ASTI Output and adjust allowances; or
  - (b) Ofgem will assess the PCD as 'Not Delivered/Partially Delivered' and make any necessary adjustments to allowances in accordance with the PCD Reporting Requirements and Methodology Document.
- 4.100 For any projects that are cancelled within 12 months of the delivery date in Appendix 1 of Special Condition 3.41 we would expect that any allowance adjustment following cancellation of an ASTI Output will be made through the PCD assessment. For projects cancelled more than 12 months before the project delivery date we would expect the TO to submit an COAE request.

## **5. ASTI output delivery incentive**

- 5.1 The ASTI output delivery incentive (ASTI ODI) is a financial incentive that is intended to encourage the TOs to deliver ASTI projects in a timely manner. Under the ASTI ODI, TOs are eligible for financial rewards if ASTI projects are delivered before their ASTI ODI Target Dates, and are liable for penalties if those projects are delivered late.
- 5.2 This chapter provides guidance on aspects of the ASTI ODI, including the penalty exemption mechanism and the application of ODI rewards and penalties.

### **Penalty exemptions**

- 5.3 The ASTI ODI includes a mechanism to allow the TOs to apply for an exemption from penalties for a limited duration if delays to the delivery of projects are caused by factors outside the TOs' reasonable control. This section provides guidance for TOs and other stakeholders on the operation of this mechanism.

#### *Principles governing penalty exemptions*

- 5.4 When making decisions in relation to ASTI ODI penalty exemptions, we will apply the following principles:
- The TOs will be exempted from ASTI ODI penalties for the duration of any delay that can reasonably be attributed to factors outside their control, adjusted for the impact of mitigating measures that a notional efficient TO acting reasonably would have undertaken.
  - TOs' actions will be assessed against information that could reasonably have been known to the TO at the time of the action, rather than with the benefit of hindsight.
  - Penalty exemptions will only be made where delivery times have been materially impacted and following consideration of the underlying assumptions within the TO delivery plans used to confirm ASTI projects.

#### *Delay Events*

- 5.5 A Delay Event is defined in the Special Condition 1.1 of the TOs' licences.
- 5.6 We will assess the TO's actions before and after the Delay Event has occurred by reference to actions that a notional efficient TO could reasonably have been expected to take. We will also consider the assumptions within the TO's delivery plans.

*Examples of events that may qualify as Delay Events*

5.7 Whether or not the definition of Delay Event set out in Special Condition 1.1 is met will depend on the relevant circumstances and the quality of supporting evidence put forward by TOs in their applications.

5.8 Examples of events that could potentially qualify as Delay Events include:

- Delays in obtaining planning approval and consents
- Acquisition of land / necessary land rights via compulsory acquisition
- Delays regarding seabed leasing or agreements for interaction with other third-party infrastructure
- War, hostilities, or terrorist events
- Extreme weather conditions (lower than 1 in 10 probability)
- Contractor/supplier/manufacturer insolvency or unavailability
- Livestock epizootic
- Significant protestor action
- Legal challenge to procurement process by prospective contractor
- Material changes in law, regulation, and international treaties applicable to the UK
- Availability of transmission system for Build, Testing and Outages (e.g. if ESO calls planned outage at short notice)
- Unforeseen and significant ground or seabed conditions
- Unavailability of equipment or capacity globally in supply chain
- Unforeseen unexploded ordinance mitigation
- Significant archaeological discoveries
- Significant change to project scope
- Correlated delay in delivery of interlinked projects
- Actual efficient costs of project delivery are at least +/-10% of allowances

*Correlated delay risk*

5.9 There are many links between projects, with some projects having to be delivered/sufficiently constructed for another to proceed, or where numerous projects are dependent on a particular outage being available. Therefore, there is

a risk that should one project be delayed, this could lead to other projects also being delayed.

- 5.10 Where Ofgem agrees that a Delay Event has occurred on a project and the delay caused has a direct impact on the delivery of another ASTI project that the TO is not able to mitigate, we will consider further penalty exemption requests for the related projects that are impacted.

*The process for applications for penalty exemptions*

- 5.11 This section provides further information on the process for making applications for penalty exemptions under Part B of Special condition 4.8. It also sets out our expectations of the contents of those applications.
- 5.12 Before making an application for a penalty exemption, the TO must notify Ofgem in writing of its intention to make that application in accordance with the provisions set out in Special Condition 4.8.
- 5.13 Some potential Delay Events may not have a clear commencement date, and in other cases, the occurrence of the potential Delay Event may not be immediately apparent to the relevant TO. The deadline for notification reflects this by taking into account the date that the TO has become aware of the event. We expect that a TO acting in line with its statutory and licence obligations would have robust processes in place to ensure that potential Delay Events are identified and brought to its notice as soon as reasonably practical.
- 5.14 Where a potential Delay Event has commenced, or a TO has become aware of the commencement of a potential Delay Event, before the Special Condition 4.8 has come into effect, the TO may notify Ofgem within 45 days of the Special Condition coming into effect. Special Condition 4.8 allows the TOs to make an application for a modification to the ASTI ODI Penalty Exemption Period if it considers that one or more Delay Events have occurred.
- 5.15 In exceptional circumstances Ofgem may agree to allow TOs to make applications after this date has passed. It is expected that such an agreement would only occur in circumstances where the relevant TO has provided compelling evidence that the 45-day application window could not be complied with.

*Contents of the application*

- 5.16 Special Condition 4.8.6 sets out the TOs' obligations in relation to the contents of an application for penalty exemptions. This section provides further guidance in relation to those obligations.



- 5.17 Special Condition 4.8.6(a) requires the TO to provide a description of the potential Delay Event along with evidence that supports the TO's application that the potential Delay Event meets the criteria for a Delay Event as defined in Special Condition 1.1.
- 5.18 We expect that such evidence would include:
- The expected delivery date for the project according to the most recent project delivery plan, or the expected delivery date that is consistent with a reasonable set of 'baseline' planning assumptions relating to the occurrence of the potential Delay Event along with supporting information on how that date was estimated.
  - Whether the potential Delay Event was anticipated within the TO's original delivery plans submitted in September and December 2022, and if so, what underlying assumptions in relation to the relevant impact were reflected in those delivery plans.
  - The expected delivery date taking account of:
    - (1) the effects of the potential Delay Event(s) that is the subject of the application; and
    - (2) the effects of any reasonable preventative and mitigating steps that a reasonable and efficient TO might take in relation to that potential Delay Event.
  - A detailed explanation of how the potential Delay Event(s) and the steps taken by the TO have caused or contributed to the revision in the expected delivery date of the project.
- 5.19 We would expect the application to include all available supporting evidence to enable Ofgem to assess the reasonableness of the TO's expected delivery dates (both before and after the event).
- 5.20 We also expect the TO to provide evidence that the delay is outside the reasonable control of the TO and not attributable to any error on the part of the TO. In assessing whether a delay is outside the TO's reasonable control, we will consider whether the effects of the potential Delay Event could not have been anticipated, prevented or mitigated by a notional efficient TO acting reasonably. We would also consider whether the effects of the potential Delay Event exceed any reasonable contingency period that might be built into the project plan by an efficient TO to take account of the potential event.

5.21 Special Condition 4.8.6 requires the TO to provide any evidence available that it took reasonable steps before and after the potential Delay Event to prevent, mitigate and limit the event's effect. Such evidence could include comparisons with best practice in infrastructure projects of a comparable nature both within and outside the UK.

*Determination of the penalty exemption period*

5.22 The ASTI ODI Penalty Exemption Period in Appendix 1 of Special Condition 4.8 was initially set to zero for all projects. Following our assessment of a penalty exemption application submitted by a TO, we may decide to modify the ASTI ODI Penalty Exemption Period term for the relevant ASTI project.

5.23 In line with paragraph 5.4 of this guidance, the purpose of this modification is to exempt the TOs from ASTI ODI penalties for the duration of any Delay Event that can reasonably be attributed to factors outside their control, adjusted for the impact of mitigating measures that a notional efficient TO acting reasonably would have undertaken.

5.24 In determining the value of the modified ASTI ODI Penalty Exemption Period, Ofgem will have regard to:

- the duration of any actual or expected delay that can be reasonably attributed to the Delay Event; and
- the effect on the duration of any actual or expected delay of preventative and mitigating actions that a notional efficient TO could be reasonably expected to take in connection with the Delay Event.

5.25 Ofgem will determine the duration of the actual or expected delay, taking account of:

- estimates of the delay period provided by the TO as part of its application.
- its assessment of the expected delivery dates (both with and without the Delay Event); and
- its assessment of the proportion of the delay that could reasonably be attributed to the Delay Event.

5.26 Our ASTI Decision set out that penalty exemptions will only be granted where delivery times have been materially impacted. For the purposes of the ASTI ODI, we consider that 30 days is an appropriate point at which a delay would be considered material. We would therefore not make modifications to licences to grant penalty exemptions of fewer than 30 days.

5.27 Where Ofgem agrees that a Delay Event has occurred and an ASTI ODI Penalty Exemption has been determined, the delivery date in Appendix 1 of Special Condition 3.41 will also be adjusted by a period equal to the ASTI ODI Penalty Exemption. This will be done under Section 11A of the Electricity Act.

*ASTI ODI Target Dates following project scope change*

5.28 Where there are significant changes to the scope of an ASTI project (for example as a result of the planning process or redesign by the ESO) which means the delivery date is no longer considered achievable, we will consider whether there is sufficient evidence to suggest that it is appropriate to update the ASTI ODI Target Date through a Section 11A licence modification.

5.29 Such significant scope changes are likely to mean that what is being delivered essentially constitutes a new project. In these circumstances, we will consider whether the project remains suitable for funding under ASTI. If we agree that it is suitable for funding under ASTI, we will consider setting it as a new ASTI Output and setting a new ASTI ODI Target Date.

5.30 For relatively small scope changes we would not normally expect these to have a material impact on the delivery date and we would not therefore typically seek to modify the ASTI ODI Target Date in these circumstances.

5.31 Any decision to modify the ASTI ODI Target Date would be based on a range of project-specific factors and circumstances including, but not limited to, the level of confidence we have in the revised date and the extent to which consumer benefit can be demonstrated from delivering the project later than the original ASTI ODI Target Date. We expect there to be limited occasions and circumstances where such a change will be considered. We would typically expect scope changes to be aligned with the identification of new ASTI projects or with the planning process ahead of project assessment.

*Worked examples of the penalty exemption mechanism*

5.32 Table 6 below sets out some examples of how the ASTI ODI penalty exemption mechanism could work in practice.

**Table 6: Theoretical examples of the ASTI ODI penalty exemption mechanism**

<b>Illustrative scenario</b>	<b>Possible outcome of the penalty exemption mechanism</b>
<p><b>Example 1</b>                      ASTI ODI Target Date: 31/12/2031</p> <p>Expected delivery date without taking account of the potential Delay Event: 31/12/2031</p> <p>Expected delivery date taking account of the impact of the potential Delay Event and TO’s actions: 31/01/2032</p> <p>Requested penalty exemption duration: 31 days</p>	<p>Ofgem accepts the expected delivery dates.</p> <p>Licence modification to increase the value of the ASTI ODI Penalty Exemption Period for the project by 31 days.</p>
<p><b>Example 2</b>                      ASTI ODI Target Date: 31/12/2031</p> <p>Expected delivery date without taking account of the potential Delay Event: 30/06/2031</p> <p>Expected delivery date taking account of the impact of the potential Delay Event and TO’s actions: 30/09/2031</p> <p>Requested penalty exemption duration: 92 days</p>	<p>Ofgem accepts the expected delivery dates.</p> <p>Licence modification to increase the value of the ASTI ODI Penalty Exemption Period for the project by 92 days.</p>
<p><b>Example 3</b>                      ASTI ODI Target Date: 31/12/2031</p> <p>Expected delivery date without taking account of the potential Delay Event: 30/06/2031</p> <p>Expected delivery date taking account of the impact of the potential Delay Event and TO’s actions: 31/03/2032</p> <p>Requested penalty exemption duration: 276 days</p>	<p>Ofgem accepts the expected delivery dates.</p> <p>Licence modification to increase the value of the ASTI ODI Penalty Exemption Period for the project by 276 days.</p>
<p><b>Example 4</b>                      ASTI ODI Target Date: 31/12/2031</p> <p>Expected delivery date without taking account of the potential Delay Event: 30/06/2031</p> <p>Expected delivery date taking account of the impact of the potential Delay Event and TO’s actions: 31/03/2032</p> <p>Requested penalty exemption duration: 276 days</p>	<p>Ofgem rejects the TO’s expected delivery dates based on the available evidence that the delay period that can reasonably be attributable to the Delay Event is 150 days and not 276 days.</p> <p>Licence modification to increase the value of the ASTI ODI Penalty Exemption Period for the project by 150 days.</p>

### **No financial benefits to the TO in the event of a delay**

- 5.33 TOs should not benefit financially from a delay to an ASTI project.
- 5.34 If a project is delivered after the ASTI ODI Target Date, or if a penalty exemption is granted under Special Condition 4.8, we may modify the totex allowance profile associated with the project to match the profile of actual expenditure. Such modifications would be made under Section 11A of the Act.
- 5.35 We expect that any payments or credits received by the TO and provided by a supplier or contractor as a consequence of a delay to a project (for example, delay charges, penalties) that is in excess of the actual ASTI ODI penalty applied in respect of that project will be passed onto consumers. Before passing the full amount recovered onto consumers we will consider whether there are any specific TO-incurred costs related to the delay that it is reasonable to compensate from any recovered funds.

### **Application of rewards and penalties**

- 5.36 Aggregate rewards and penalties determined under the ASTI ODI in any year would be applied as an adjustment to the TO's RAV in that year.
- 5.37 The calculation of the RAV, including any adjustments, is set out in the RIIO-2 PCFM. We do not expect any rewards or penalties to be applied under the ASTI ODI before the end of the RIIO-2 period, and therefore do not consider that the RIIO-2 PCFM needs to be modified at this stage. We will incorporate the ASTI ODI financial incentive term in the calculation of the RAV within the PCFM for the next price control period.
- 5.38 Our assumption is that rewards/penalties will be depreciated through the RAV over a period of 10 years to avoid any single year bill impact shocks and avoid any intergenerational unfairness. This will be confirmed following a full financeability assessment ahead of creating the financial model for the next price control.

## Appendix 1 – ASTI project list

PROJECT REFERENCE	PROJECT DESCRIPTION	TO RESPONSIBLE FOR DELIVERY	OPTIMAL IN-SERVICE DATE <sup>43</sup>	DELIVERY DATE <sup>44</sup>
<b>AENC</b>	New 400 kV double circuit in north East Anglia	NGET	2030	31 December 2031
<b>ATNC</b>	New 400 kV double circuit in south East Anglia	NGET	2030	31 December 2031
<b>BBNC</b>	Beauly to Blackhillock 400 kV double circuit addition	SHET	2030	31 December 2031
<b>BDUP</b>	Uprate the Beauly to Denny 275 kV circuit to 400 kV	SHET_SPT	2030	31 December 2031
<b>BLN4</b>	Beauly to Loch Buidhe 400 kV reinforcement	SHET	2030	31 December 2031
<b>BPNC</b>	New 400 kV double circuit between Blackhillock and Peterhead	SHET	2030	31 December 2031
<b>BTNO</b>	New 400 kV double circuit between Bramford and Twinstead	NGET	2028	31 December 2029
<b>CGNC</b>	New 400 kV double circuit between Creyke Beck and the south Humber	NGET	2030	31 December 2031
<b>DWNO</b>	Denny to Wishaw 400 kV reinforcement	SPT	2028	31 December 2029
<b>E2DC</b>	Eastern subsea HVDC link from Torness to Hawthorn Pit	NGET_SPT	2027	31 December 2028
<b>E4D3</b>	Eastern Scotland to England link: Peterhead to Drax offshore HVDC	NGET_SHET	2029	31 December 2030
<b>E4L5</b>	Eastern Scotland to England 3rd link: Peterhead to the south Humber offshore HVDC	NGET_SHET	2030	31 December 2031
<b>EDEU</b>	400 kV upgrade of Brinsworth to Chesterfield double circuit and Chesterfield to High Marnham double circuit. New High Marnham and Chesterfield 400 kV substations	NGET	2028	31 December 2029

<sup>43</sup> As determined by the ESO in it's NOA7 Refresh analysis.

<sup>44</sup> This date is the initial delivery date added to TO licences.

**Guidance** – (Draft) Accelerated Strategic Transmission Investment (ASTI) Guidance and Submissions Requirements Document

<b>EDN2</b>	New Chesterfield to Ratcliffe-on-Soar 400 kV double circuit	NGET	2030	31 December 2031
<b>GWNC</b>	A new 400 kV double circuit between the south Humber and south Lincolnshire	NGET	2030	31 December 2031
<b>HWUP</b>	Uprate Hackney, Tottenham and Waltham Cross 275 kV to 400 kV	NGET	2027	31 December 2028
<b>OPN2</b>	A new 400 kV double circuit between the existing Norton to Osbaldwick circuit and Poppleton and relevant 275 kV upgrades	NGET	2027	31 December 2028
<b>PSDC</b>	Spittal to Peterhead HVDC reinforcement	SHET	2030	31 December 2031
<b>PTC1</b>	Pentir to Trawsfynydd cable replacement	NGET	2028	31 December 2029
<b>PTNO</b>	North Wales reinforcement	NGET	2029	31 December 2030
<b>SCD1</b>	New Offshore HVDC link between Suffolk and Kent option 1	NGET	2030	31 December 2031
<b>SLU4</b>	Loch Buidhe to Spittal 400 kV reinforcement	SHET	2030	31 December 2031
<b>TGDC</b>	Eastern subsea HVDC Link from east Scotland to south Humber area	NGET_SPT	2030	31 December 2031
<b>TKRE</b>	Tilbury to Grain and Tilbury to Kingsnorth upgrade	NGET	2028	31 December 2029
<b>TKUP</b>	East Coast Onshore 400 kV Phase 2 reinforcement	SHET_SPT	2030	31 December 2031
<b>WESTERN ISLES</b>	Arnish to Beaulieu 1.8GW HVDC link	SHET	2030	31 December 2031

## **Appendix 2 – General requirements on TOs**

TOs must include up-to-date information at the time of each submission. This includes information available to the TO from third parties, such as the ESO, other TOs, contractors or stakeholders.

It is ultimately the responsibility of the TOs to decide what information is necessary to make a robust case for a proposed project and to provide us with all relevant information to inform our assessment. As each project is unique, the information required will vary between projects.

Prior to each submission the TO may engage with us to help it to consider what information is necessary to make a robust case.

In instances where a TO considers it is unable provide information set out in this document, for example because of the nature of a project, it must explain to us why.

TOs are expected to:

- keep us updated about its expected submission schedule and advise us of any changes to the timetable that the TO has previously indicated;
- engage early with the ESO, in parallel with discussions with us, where the ESO's analysis is required;
- identify whether there will be any joint working with other TOs, Distribution Network Owners (DNOs) or other relevant parties in the delivery of the proposed project and identify how work and responsibility on the project is to be shared across such parties;
- provide complete and navigable submissions that do not rely on the cross-referencing of information provided previously to Ofgem (for example for some other purpose or given in a previous submission that was subsequently withdrawn);
- maintain an assurance system for the quality and completeness of information submitted to us (including, for example, senior management sign off on all submissions);
- clearly identify and justify the validity of assumptions used in supporting analysis;
- inform us as and when changes are made to key assumptions and provide a log of the impacts of such changes on the supporting analysis and results;



- respond in a timely manner to requests for further information, ensuring that the information provided is complete, accurate and addresses the issue or question being raised; and
- proactively engage with stakeholders including other TOs, seeking their views and providing them with timely updates on changes to its plans in relation to the proposed ASTI project.

### **The role of Ofgem, TOs and the ESO**

Ofgem does not design projects or plan how projects should be built or what routes they should take. This is the responsibility of the TOs, in accordance with the obligations placed on them by planning regulations and the relevant planning authorities and in accordance with their wider duties in the legislative framework.

As economic regulator, we consider the investment case for transmission projects presented to us and the efficient costs that can be recovered from consumers for delivering these projects. We will take into account the outcome of the planning process in assessing the costs that network companies are allowed to recover from consumers for projects.

The TOs are responsible for developing network investment plans and for obtaining the relevant consents from the planning authorities.