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Appendix: Proposed modification to the Price Control Deliverable Reporting Requirements and Methodology Document

We are consulting on modifying the Price Control Deliverable (PCD) Reporting Requirements and Methodology Document to include the following Appendix covering the assessment of the Accelerated Strategic Transmission Investment (ASTI) Pre-Construction Funding (PCF) PCD.

Appendix 6 – Electricity Transmission: ASTI Pre-Construction Funding

With respect to:

- Special Condition 3.40 Accelerated Strategic Transmission Investment Pre-Construction Funding Re-opener, Price Control Deliverable and Use It Or Lose It Adjustment (APCFt)
- ASTI Guidance and Submissions Requirements Document, Section 3 ASTI Pre-Construction Funding.

Reporting requirements

The following paragraphs set out details of how the ASTI PCF PCDs will be reported and assessed. In general, the PCD assessment for ASTI PCF PCDs follows the same principles as set out within chapter 6 of this document. The main difference is that because allowances for ASTI PCF PCDs are substitutable across each Transmission Owner's (TO) portfolio of ASTI projects, we need to undertake an assessment of delivery of all PCDs simultaneously rather than consider them each individually, as allowances for one PCD could have been used to deliver a different PCD.

The PCF PCD delivery dates for all ASTI projects subject to Special Condition 3.40 were initially set to 31^{st} March 2026 upon implementation in the electricity TOs' licences. These dates may be modified following a re-opener application, and any new projects added to the ASTI framework may have different PCD delivery dates.

It is possible that all PCD delivery dates in a TO's portfolio of ASTI projects remain as 31st March 2026. If so, the PCD assessment will follow the process set out in Outcome 1 below. Alternatively, it is possible PCD delivery dates for one or more projects are pushed back and set within the following price control period. If this is the case, our PCD assessment will follow the process set out in Outcome 2.

Outcome 1: If all a licensee's evaluative ASTI PCF PCD delivery dates remain as 31March 2026, the licensee must by 31 July 2026, or such later date directed by the Authority, send to the Authority a Basic PCD Report covering every evaluative ASTI PCF PCD, as per the process outlined in section 6 of this document. In this circumstance we will assess all of the TOs' ASTI PCF PCDs collectively as part of the RIIO-2 close-out procedure. In practice this means one evaluative assessment of delivery across all ASTI PCF outputs followed by a Use-It-Or-Lose-It (UIOLI) adjustment to return any unspent allowances to consumers.

The UIOLI adjustment will be made on a portfolio rather than project by project basis, so it will be the net underspend against a TO's total ASTI PCF allowance that is returned to consumers rather than underspends against each project (which could have been substituted and spent on other projects).

Outcome 2: If PCD delivery dates for one or more projects are pushed back and set within the following price control period, we will make our assessment in two parts:

Part a) the licensee must by 31 July 2026, or such later date directed by the Authority, send to the Authority a Basic PCD Report covering every evaluative ASTI PCF PCD, as per section 6 in this document. We will then assess all PCDs with delivery dates of 31st March 2026 as part of the RIIO-2 close-out procedure, as per the description under Outcome 1.

Part b) For remaining projects where the delivery date for the ASTI PCF PCD is in the next price control period, we will then set efficient ASTI PCF allowances to deliver these outputs as part of the next price control settlement on a project by project basis. These total allowances will also be substitutable across each TO's portfolio of ASTI projects, as per the RIIO-ET2 ASTI PCF allowances. The total allowances in the next price control will also be UIOLI, and after delivering all PCD outputs any remaining allowances will be returned to consumers through the UIOLI mechanism, as set out above.

In the next price control, by 31 July in the regulatory year following the final PCD's delivery date, or such later date directed by the Authority, the licensee must send to the Authority a Basic PCD Report covering the remaining ASTI PCF PCDs, following the process set out in section 6 of this document. The PCD assessment for outputs delivered in the next price control will be assessed following the same methodologies and principles as those that are assessed as part of RIIO-2 close-out.

Assessment Principles

We will assess ASTI PCF PCDs collectively across each TO's portfolio of projects, albeit this may be in two-stages if ASTI PCF PCD outputs are delivered over two price controls, as set out above under Reporting Requirements.

Although substitutable, ASTI PCF PCD allowances specified in the licence are allocated to the individual projects in a TO's portfolio for the purposes of assessing the PCD. This project-specific value ("Associated PCF Allowance £m" in Table 1 and Table 2 below) represents the maximum downwards adjustment that Ofgem may make per project for any PCDs that are not Fully Delivered. Efficiently incurred expenditure across the portfolio of ASTI projects and the materiality of the UIOLI adjustment will be important considerations before making any allowance adjustment following our PCD assessment.

For the avoidance of doubt, the allowance allocated against ASTI PCF PCD does not restrict how TOs may spend across their portfolio of projects, it is only a means of attributing funding to an output for the purposes of assessing PCDs.

Before making any allowance adjustment in the event of an ASTI PCF PCD output not being Fully Delivered, we will consider efficient expenditure across the TO's full portfolio of projects as allowances on a project not Fully Delivered could have been substituted and spent efficiently on a different project.

Where a TO Fully Delivers all the ASTI PCF PCD outputs, there will be no ex-post efficiency assessment of the costs incurred delivering the outputs. In this circumstance any underspend against allowances would be returned to consumers through a UIOLI adjustment.

Table 1: Example PCD assessment 1 (overspend)

Project	PCD delivered?	Associated PCF Allowance £m	PCF Spent on project £m	Associated PCF allowance spent on project (%)
A	Yes	3.8	4.0	105%
B	Yes	12.5	15.0	120%
C	Yes	11.3	9.0	80%
D	Yes	5.0	10.0	200%
E	**No**	**6.9**	**8.0**	**116%**
Totals		39.5	46.00	116%
Over / under spend			6.5	16%

Table 1 above is an example of how a TO may have delivered its portfolio of projects. In this example there is an overall overspend of £6.5m above the ASTI PCF allowance. Project E's PCD in this example has not been delivered (e.g. because the project was cancelled). Ofgem would assess this TO's portfolio of projects simultaneously and look at spend across the whole portfolio.

As the PCD for project E has not been delivered, Ofgem would consider clawing back allowances. The maximum amount Ofgem could claw back in this example is £6.9m (the allowance associated with project E) even though the TO has spent more than this amount.

The only allowances clawed back in this example would be those that Ofgem determined were spent inefficiently following the PCD assessment. Assuming the £8m spent on project E had been spent efficiently, or substituted and spent efficiently on a different project in the portfolio, Ofgem would not look to claw back any of this allowance. If this was the case, in this example there would be no claw-back or UIOLI adjustment, and the £6.5m overspend would be subject to the Totex Incentive Mechanism (TIM).[1]

[1] Assumes £6.63m is lower than the TO's Materiality Threshold; any overspend above the Materiality Threshold could be recovered through the Re-opener mechanism set out in Special Condition 3.40.

Table 2: Example PCD assessment 2 (underspend)

Project	PCD delivered?	Associated PCF Allowance £m	PCF Spent on project £m	Associated PCF allowance spent on project (%)
A	Yes	3.8	4.0	107%
B	Yes	12.5	15.0	120%
C	Yes	11.3	9.0	80%
D	Yes	5.0	10.0	200%
E	**No**	**6.9**	**1.0**	**15%**
Totals		39.5	39.0	99%
Over / under spend			-0.5	-1%

Table 2 above is another example of how a TO may have delivered its portfolio of projects. In this example there is an overall underspend of £0.5m below the ASTI PCF allowance. Project E's PCD in this example has not been delivered (e.g. because the project was cancelled). Ofgem would assess this TO's portfolio of projects simultaneously and look at spend across the whole portfolio.

As the PCD for project E has not been delivered, Ofgem would consider clawing back allowances. The maximum amount Ofgem could claw back in this example is £6.9m (the allowance associated with project E); this maximum clawback could only occur if Ofgem determined the £1m spent on project E was spent inefficiently, and if Ofgem determined that the remaining allowance (£5.6m) had been spent inefficiently elsewhere across the portfolio of projects.

Assuming the £1m spent on project E had been spent efficiently, and the remaining £5.6m had been spent efficiently elsewhere, Ofgem would not look to claw back any of this allowance. If this was the case, in this example there would be no clawback, and the overall underspend across the portfolio of £0.5m would be returned to consumers via a UIOLI adjustment.