

Governance

Closely Associated Indirects Use-it-or-lose-it Governance Document

| | |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| Publication date: | 16 December 2025 |
| Contact: | Evelyn Mulvin, Teresa Romano |
| Team: | RIIO Transmission Cost |
| Email: | evelyn.mulvin@ofgem.gov.uk , teresa.romano@ofgem.gov.uk |

This document is for Electricity Transmission Licensees (Transmission Owners, “TOs”) and provides information relating to their expenditure under Special Condition 3.13 Closely Associated Indirects Use-it-or-lose-it (“CAI UIOLI”) allowance mechanism. It explains eligible expenditure, reporting requirements, and how the Authority will adjust the allowance by direction.

The CAI UIOLI is an uncertainty mechanism in RIIO-ET3 which provides upfront funding for operational expenditure associated with lower-materiality load-related projects (under £150m) via an allowance which can be recovered for projects in scope. It provides flexibility for TOs and protection to consumers and reduces regulatory burden for Ofgem.

This governance document will take effect from 1 April 2026, for the RIIO-ET3 Price Control Period.

© Crown copyright 2025

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the Open Government Licence.

Without prejudice to the generality of the terms of the Open Government Licence, the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to psi@nationalarchives.gsi.gov.uk.

Contents

| | |
|-------------------------------------------------------|----------|
| 1. Introduction..... | 4 |
| Context and related publications | 4 |
| 2. Usage of CAI UIOLI allowances | 6 |
| 3. Reporting requirements..... | 7 |
| 4. Further CAI UIOLI Allowances (CAIFAt)..... | 7 |
| 5. Use-it-or-lose-it adjustments (CAIRt) | 9 |

1. Introduction

- 1.1 Indirect costs refer to support and overhead costs that are necessary to operate a transmission business, that could not, on their own, be classed as a direct network activity. Closely associated indirect costs (CAI) are more directly tied to construction and operation of network assets such as project management and network design. CAI activities can be performed by external third parties on behalf of the licensee, and these costs are known as ‘contractor indirects’.
- 1.2 The purpose of the CAI Use-it-or-lose-it (UIOLI) allowance is to ensure timely and flexible funding for licensees as the costs and volumes of the RIIO-ET3 load capital expenditure programme are uncertain. The CAI UIOLI allowance provides upfront funding for CAI costs related to projects where there is uncertainty – both in terms of costs and whether the projects will proceed. The CAI UIOLI mechanism also provides funding for non-project specific costs that support the growth of business operations where this is driven by load-related investments. For reporting purposes, these costs must be apportioned to projects and CAI cost categories, and the allocation methodology explained in the narrative accompanying the Regulatory Reporting Packs (RRPs).
- 1.3 Due to this uncertainty the CAI UIOLI will have a top-up mechanism to provide further CAI allowances if required. The UIOLI element ensures that funding can be accessed as and when licensees require it. Furthermore, the ability to request additional allowances allows the overall size of the CAI UIOLI to flex in line with the scale and number of projects being delivered within the portfolio of load schemes in scope. Where development work may be undertaken and CAI costs incurred for projects that do not reach full maturity, these costs can be recovered through the CAI UIOLI and must follow the reporting requirements outlined in this document.

Context and related publications

- 1.4 Our¹ RIIO-3 Final Determinations², introduced a UIOLI mechanism for supporting delivery of lower materiality load-related projects. We noted the importance of having a mechanism alongside baseline funding to provide timely and flexible funding associated with more uncertain activities, whilst offering protection for consumers.

¹ In this document we use the terms, ‘Ofgem’ and ‘the Authority’ as well as the terms ‘we’, ‘us’ and ‘our’ interchangeably. Ofgem is the Office of the Gas and Electricity Markets. The Authority is the Gas and Electricity Markets Authority and is the governing body of Ofgem, consisting of non-executive and executive members.

² [RIIO-3 Final Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#)

Guidance Closely Associated Indirects Use-it-or-lose-it Governance Document

- 1.5 The CAI UIOLI mechanism provides licensees with upfront allowances for indirect costs to support delivery of lower materiality (under £150m) load-related projects quickly, without the need for detailed regulatory assessment.
- 1.6 Any unused allowance will be recovered at the end of the price control period, or expenditure related to projects which do not meet the scope of application set out in this document or reflect an efficient level of CAI expenditure.
- 1.7 Our RIIO-3 Final Determinations provided network licensees with the following CAI UIOLI allowances (2024/25 price base) as per Appendix 1 of Special Condition 3.13 Closely Associated Indirects UIOLI allowance:
 - National Grid Electricity Transmission (NGET): £468.26m
 - Scottish Hydro Electric Transmission Limited (SHET): £399.37m
 - Scottish Power Transmission (SPT): £217.13m

2. Usage of CAI UIOLI allowances

This chapter sets out expenditure that may be incurred under the CAI UIOLI mechanism.

- 2.1 CAI UIOLI allowances are to be used only for the following cost items (as defined in the Regulatory Instructions and Guidance (RIGs) document):
 - Project Management
 - Network Design & Engineering
 - Engineering Management & Clerical Support
 - System Mapping
 - Network Policy (incl. R&D)
 - Health, Safety & Environment
 - Stores & Logistics
 - Vehicles & Transport
 - Market Facilitation
 - Network Planning
- 2.2 CAI UIOLI allowances should be used for the cost items referenced above for schemes which are funded through the following uncertainty mechanisms:
 - Special Condition 3.11 Generation Connections volume driver (GCeT)
 - Special Condition 3.12 Demand Connections volume driver (DRIT)
 - Special Condition 3.17 Load UIOLI (LIT)
 - Special Condition 3.18 Load Re-opener (LRt) schemes with capital expenditure below £150m.
- 2.3 CAI UIOLI allowances may be used for contractor indirect costs and licensees must adhere to the delineation of indirect costs incurred by external third parties as set out in the RIGs.
- 2.4 CAI UIOLI allowances may be used for non-project specific costs where these are driven by load investments. These costs must be apportioned to projects and CAI cost categories, and the allocation methodology explained in the narrative accompanying the Regulatory Reporting Packs (RRPs).
- 2.5 The use of this fund does not involve an up-front process of the Authority approving projects, however, if the Authority finds a project does not meet the scope of application as set out in this document, we reserve the right to claw back

the associated funding. This right extends to CAI funding used for Electric Vehicle (EV) leasing costs as this falls under the cost category for Vehicles and Transport. We expect licensees who are not subject to SpC 3.9 Operational Transport Emissions Reduction PCD (OTEt) to adopt the efficient unit rates in accordance with those set out in OTEt. We expect licensees who are subject to OTEt to recover CAI for EV leasing costs through that PCD, and not through the CAI UIOLI.

3. Reporting requirements

This chapter sets out the reporting requirements for the CAI UIOLI mechanism.

- 3.1 The licensee must report its expenditure related to the CAI allowances as part of its annual reporting requirements in each Regulatory Year in the RRP.
- 3.2 The licensee must report its CAI UIOLI expenditure for each Regulatory Year in tables x-y of the RRP. This is reported separately to CAI costs recovered through baseline allowances where there must not be an overlap. This is also reported separately to Pre-Construction Funding (PCF) according to the delineation between CAI and PCF outlined in the RIGs.
- 3.3 The licensee must report these costs in line with the instructions and guidance contained within the RIGs. This includes a requirement for contractor indirect costs to be reported separately for the two applicable cost categories; Project Management and Network Design and Engineering. Additionally, licensees will separately report EV leasing costs under the Vehicles and Transport cost category. This is to monitor the costs are in line with the efficient unit rates applied under the Operational Transport Emissions Reduction PCD.

4. Further CAI UIOLI Allowances (CAIFAt)

This chapter sets out the process for applying and receiving further CAI UIOLI allowances (CAIFAt).

- 4.1 The aim of the assessment process is to ensure the setting of further CAI UIOLI allowances is timely, transparent, and proportionate with respect to existing and additional projects for which allowances have not yet been set.
- 4.2 The licensee may at any time in each Regulatory Year request from the Authority further CAI UIOLI allowances only when the actual usage of allowances exceeds 80% of the total CAI allowances cumulative across all five years of the price control at the time of request.
- 4.3 The licensee must provide in writing to [email address] a formal request for further CAI UIOLI allowances.

- 4.4 The licensee must provide an accompanying data table demonstrating CAI UIOLI allowance expenditure per Regulatory Year up to the date of submitting the request. This table must be in the same format as table x in RRs.
- 4.5 The licensee must provide an accompanying data table identifying the schemes under construction or completed up to the date of submitting the request. This relates only to projects that did not have capital expenditure provided through baseline allowances as these schemes were provided CAI through baseline allowances. This must include the total capital expenditure cost per scheme (both incurred and expected costs) per Regulatory Year. The list of schemes and their capital expenditure costs must be consistent with what the licensee reports in table x of the RRs.
- 4.6 The licensee must provide an accompanying data table identifying schemes to be constructed, i.e. not yet under construction, for which further associated CAI UIOLI allowances are required. This must include the total capital expenditure per scheme in each Regulatory Year. The list of schemes and their capital expenditure must be consistent with the reported capital expenditure in table x of the RRs. Where there are inconsistencies, CAI UIOLI allowances will be adjusted at the end of the RRO-ET3 period as part of the CAI UIOLI allowance adjustment. As part of this adjustment the licensee will be required to explain the reason for reporting inconsistencies.
- 4.7 For schemes with capital expenditure up to £150m which are being funded through the Load Re-opener (Special Condition 3.18) and where the project assessment has not been completed at the time of the request, the licensee must provide its forecast capital expenditure based on the best available information.
- 4.8 The licensee may apply for further allowances for existing schemes under construction, provided it demonstrates the residual 20% of the total CAI UIOLI allocation cannot reasonably meet project requirements and substantiating the likelihood of overspend.
- 4.9 The Authority may request additional information at its discretion through a supplementary question (SQ) process. To aid the agility of the process, licensees are expected to respond to an SQ within five working days unless otherwise specified by the Authority.
- 4.10 The Authority will calculate further CAI UIOLI allowances based on the information provided by applying the 10% ratio between CAI allowances and forecast capital expenditure, and any additional allowances considered necessary for schemes under construction. The intention is to provide further CAI UIOLI allowances with minimal burden.
- 4.11 The expected maximum duration for this assessment, based on best efforts, is to be 2 months for the Authority to be in a position to potentially propose a direction from the date of receiving the request for further CAI UIOLI allowances, consistent

with paragraph 4.3. The expected duration will be dependent on the quality of information provided by licensees in accordance with the requirements set out in this document. In turn, the Authority will seek to ensure any SQ requests for additional information are targeted and proportionate. A period for representations to be made will follow the proposed direction by the Authority and will be up to 28 days in accordance with Part E of SpC 3.13 CAI UIOLI.

5. Use-it-or-lose-it adjustments (CAIRt)

This chapter sets out the end of period adjustment process for the CAI UIOLI allowances (CAIRt).

- 5.1 The electricity transmission price control for RIIO-3 will end on 31 March 2031. Final adjustments to the CAI UIOLI will be one element that cannot be fully settled (or “closed out”) until the price control had ended.
- 5.2 Any unused allowances or allowances that are not eligible under the CAI UIOLI mechanism as set out in this document will be recovered at the RIIO-ET3 close out.
- 5.3 CAI UIOLI allowances may be adjusted at the end of the RIIO-ET3 period to reflect efficient CAI expenditure on schemes which were delivered in the period. This will be conducted in tandem with the ET3 closeout process. Reasons for allowances being adjusted either upwards or downwards can include:
 - Additional schemes delivered which were not forecasted at the time of Business Plan submissions or any subsequent allowance adjustments.
 - Undelivered schemes where overall CAI costs for schemes in scope were not incurred to the level of the initial CAI UIOLI allowance.
 - Differences between expected and actual capital expenditure across all schemes, as reported in RRP.
 - Differences between expected capital expenditure of schemes being funded through the Load Re-opener and the allowances of these schemes following project assessment.
 - An updated view of the efficient CAI expenditure related to capital expenditure using updated actual costs. This will follow the evaluation of evidence by the Authority to identify efficiently incurred costs.
- 5.4 CAI UIOLI allowance adjustment will consider projects under construction during the crossover period between ET3 and ET4 at T3 closeout.