

Guidance

Community Funds for Electricity Transmission Infrastructure Pass-Through

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This Guidance sets out how Transmission Owners (TOs) can recover costs associated with providing community benefits for electricity transmission infrastructure under the RIIO-ET3 price control. It explains how the size of the community fund is calculated, when TOs may begin spending, what costs are eligible for recovery, how Delivery Costs are treated, and what reporting and evidence requirements apply.

The Guidance is intended for the three TOs operating under RIIO-ET3 and covers all major projects that fall under the UK Government’s Guidance on community funds for electricity transmission infrastructure,¹ (DESNZ Guidance) published by the Department for Energy Security and Net Zero (DESNZ) including but not limited to ASTI², LOTI³ and CSNP⁴ projects. It supports the implementation of the relevant licence condition and aligns with DESNZ Guidance on community benefits.

¹ [Community funds for transmission infrastructure \(accessible webpage\) - GOV.UK](#)

² Accelerated Strategic Transmission Investment

³ Large onshore Transmission Investments

⁴ Centralised Strategic Network Plan

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1. Introduction

Context and related publications

- 1.1 This Guidance sets out how Transmission Owners (TOs) can recover costs associated with providing community funds for electricity transmission infrastructure under the RIIO-ET3 price control. It supports the implementation of the relevant licence condition and aligns with the DESNZ Guidance⁵.
- 1.2 The Guidance applies to all TOs operating under RIIO-ET3 and, also covers projects delivered under the Accelerated Strategic Transmission Investment (ASTI) and Large Onshore Transmission Investment (LOTI) frameworks, if construction commenced after the publication of the DESNZ Guidance (10 March 2025).

Definitions

To ensure clarity, the following terms are used consistently throughout this Guidance:

- 1.3 **Community Fund Costs** – the monetary value of the community fund itself, calculated using the formula in Part D of Special Condition 6.1 (e.g. per kilometre of overhead line, per substation, converter station, or switching station).
- 1.4 **Delivery Costs** – costs incurred in managing and administering the community fund as set out in the DESNZ Guidance and Spc 6.1 (e.g. staff, engagement, marketing, third-party administration). These are capped at 10% of the total community fund value, applied at the portfolio level.
- 1.5 **Pass-Through Costs** – the total of both Community Fund Costs and Delivery Costs, which TOs may recover in full, subject to compliance with licence conditions and this Guidance.

⁵ [Community funds for transmission infrastructure \(accessible webpage\) - GOV.UK](#)

Your feedback

1.6 We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this Guidance. We would also like to get your answers to these questions:

- Do you have any comments about the overall quality of this guidance?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Could it have been better written?
- Any further comments?

Please send any general feedback comments to MajorProjects.LTPD@ofgem.gov.uk.

2. Overview of the Pass-Through Mechanism

The licence condition in 6.1.13-6.1.14 creates a mechanism whereby TOs are allowed to recover the costs of delivering community benefits linked to new electricity infrastructure.

Fund size is calculated using a formula based on the type and scale of infrastructure (e.g. per km of overhead line, per substation).

TOs can recover 100% of eligible costs, if they comply with licence and Guidance requirements (see 6.1.21).

Delivery costs are also recoverable, capped at 10% of the total fund value.

These delivery costs are calculated across a portfolio of projects, not per project, to support efficiency, flexibility, and early engagement.

- 2.1 The community funds pass-through mechanism (see 6.1.13-6.1.14) enables TOs to recover the costs of providing community funds associated with the development of eligible electricity transmission infrastructure. Community funds are to be delivered in accordance with the Guidance published by DESNZ.
- 2.2 The size of the community fund for each project is calculated using a formula specified in Special Condition 6.1: Pass-through items (PTt), Part D. This formula assigns a monetary value to each kilometre of eligible overhead line and to each eligible substation, converter station, or switching station constructed. The total fund value for a project is therefore determined by the type and scale of infrastructure delivered.
- 2.3 The size of the community fund for each project is calculated using a formula specified in Special Condition 6.1: Pass-through items (PTt), Part D. This formula assigns a monetary value to each kilometre of eligible overhead line and to each eligible substation, converter station, or switching station constructed. The total fund value for a project is therefore determined by the type and scale of infrastructure delivered.
- 2.4 This mechanism is classified as a fully Pass-Through Cost, meaning that TOs may recover 100% of eligible Community Fund Costs, subject to compliance with the licence condition and the requirements set out in this Guidance. The mechanism is designed to ensure that TOs are not financially disadvantaged by delivering community benefits that are mandated or encouraged by government policy.
- 2.5 In addition to their costs for the core community fund, TOs may recover Delivery Costs associated with managing and delivering the fund. These costs are capped at no more than 10% of the total value of community funds calculated at the portfolio level for each TO, rather than per project. This approach allows TOs to achieve economies of scale. It also allows flexibility in exceptional cases for Delivery Costs to be higher where a specific community requires more support in

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developing its community fund package, and to support early engagement activities even where individual projects may not ultimately proceed. Recovery and reporting of Delivery Costs must be undertaken in line with the requirements set out in para 3.5.

3. Eligibility and Timing

Projects under RIIO-ET3, ASTI, and LOTI are eligible for the community funds pass-through, if construction commenced after the publication of the DESNZ Guidance (10 March 2025).

For ASTI projects, Community Fund Costs are excluded from PA allowances and recovered through the RIIO-ET3 pass-through once expenditure is evidenced.

TOs must reference anticipated Community Fund Costs in PA submissions, including the expected maximum funding envelope, consistent with other pass-through items.

For RIIO-ET3 projects, this occurs when the TO can confirm what infrastructure will be built, such as the length of overhead line.

Costs are passed through annually and are to be reported in tandem with the Regulatory Reporting Pack (RRP) submission to Ofgem each July and may be reviewed at price control close-out.

- 3.1 Projects eligible for this pass-through mechanism⁶ include those delivered under the RIIO-ET3 price control, ASTI, and LOTI frameworks.
- 3.2 For ASTI projects, community funds costs will not form part of the allowances set at Project Assessment (PA). These costs will be recovered solely through the RIIO-ET3 pass-through, once expenditure has been incurred and evidenced.
- 3.3 TOs who choose to provide Community Funds are expected to reference anticipated Community Fund Costs in their ASTI PA submissions. This should specify the highest amount they expect to allocate for the Community Fund, even if the actual spend may be lower. The information must be provided, in the same way as other pass-through items, to support transparency and completeness.
- 3.4 While the level of funding for community funds and Delivery Costs should be referenced in PA documentation for all eligible projects for completeness, consistent with other pass-through items (e.g. business rates), they will not be subject to efficiency assessment as part of the PA process.
- 3.5 Community Fund Costs will not be considered a factor for Ofgem's decision on overall project assessments. Once a TO has an estimate of funding based on the likely infrastructure when projects are set in their licence, they may begin immediately spending on Community Funds, Delivery Costs, and any anticipatory construction.⁷ In cases where a project does not proceed to delivery, TOs may still recover reasonable early-stage Community Fund Costs, provided it was

⁶ For eligibility criteria, see the Overview section of the [DESNZ guidance](#).

⁷ See 'The community funds process' of the [DESNZ guidance](#)

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incurred in good faith and in line with the expectations of this Guidance and the DESNZ framework.

- 3.6 DESNZ Guidance states that community funds are to be delivered once a project has ‘started on site for the full main works contract’. We understand this to refer to the start of construction on main transmission infrastructure that is in scope of DESNZ’s Guidance (e.g. new lines, substations, switching/converter stations), and not preparatory works (e.g. access roads, site clearance, temporary compounds, archaeological investigations, or utility diversions).
- 3.7 Once final fund sizes are confirmed in the first year of project delivery, based on detailed design, consents, and construction planning, this can be reported in lieu of the TO’s annual RRP submission so that Ofgem can calculate the amount recoverable through the pass-through condition. For RIIO-ET3 projects, the final fund size is typically confirmed once the project reaches a level of maturity that enables TOs to determine the actual infrastructure to be delivered (e.g. the number of kilometres of overhead line) based on detailed design, consents, and construction planning. For LOTI and ASTI projects, the fund size is typically confirmed once the scope is sufficiently defined through detailed design, consents, and delivery planning, ensuring costs reflect the infrastructure to be delivered.
- 3.8 Costs will pass through annually based on actual spend figures. TOs are required to submit a comprehensive annual report detailing all actual costs incurred under this pass-through, alongside their annual RRP submission. These documents must be provided to Ofgem each July.
- 3.9 Pass-Through Costs may be subject to review during the close-out of the price control (see paras 1.25 -1.29).

4. Delivery Costs

TOs can recover Delivery Costs related to managing and delivering the community fund.

These costs are capped at 10% of the total value of community funds across the price control.

The cap is applied at the portfolio level, not per project, allowing flexibility and economies of scale.

In accordance with the DESNZ Guidance and SpC 6.1.22, Delivery Costs may include capacity building, feasibility work, staff costs, engagement, marketing, PR costs, third-party administrator costs, and governance costs (as listed in the licence).

TOs will reference Delivery Costs in line with DESNZ Guidance, and are encouraged to engage with communities early.

Ofgem may review Delivery Costs at the end of the price control period if further assurance is needed. (see 'Reporting and Evidence Requirements' below for more information)

TOs must ensure Delivery Costs are consistent with, and compliant with DESNZ Guidance.

- 4.1 TOs' must report and ensure Delivery Costs comply with the DESNZ Guidance. TOs should report Delivery Costs annually and retain clear records as set out in 'Reporting and Evidence requirements'.
- 4.2 TOs may recover Delivery Costs associated with delivering community funds, subject to a cap of no more than 10% of the total value of funds (which is not indexed) across the entire price control. This cap is applied at portfolio level (covering projects under RIIO-ET3, ASTI and LOTI), rather than on a per-project basis.
- 4.3 Illustratively, if a TO manages community funds totalling £10 million across projects under RIIO-ET3, ASTI and LOTI, the maximum amount they can recover for Delivery Costs is £1 million (10% of the total fund value). This cap applies to the entire portfolio, not to individual projects. Therefore, as an example, one project might spend 15% of its own fund value on Delivery Costs, while another spends only 6%. As long as the combined Delivery Costs for all projects do not exceed £1 million, the TO remains compliant. This is intended to support efficiency, flexibility, and enable early engagement, even where individual projects may not proceed.
- 4.4 TOs must ensure that their total delivery spending:
 - Does not exceed the 10% cap based on the total fund value of eligible projects across the portfolio;

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- Supports the delivery of community benefits in line with DESNZ Guidance; and
 - Enables early engagement with communities, including for projects that may ultimately not proceed.
- 4.5 Allowable delivery costs may include the following, as set out in the DESNZ Guidance and SpC 6.1.22, but there is no requirement that any or all of these should be included for an individual project: capacity building, feasibility work, staff costs, engagement, marketing, PR costs, third-party administrator costs, governance costs.
- 4.6 Community Fund Project Delivery Costs, as defined in SpC 6.1.22, should be evidenced as supporting DESNZ expectations on engagement, transparency, and accountability, and must be reported annually in accordance with SpC 6.1.16 and this Community Funds Pass-through Guidance.

5. Reporting and Evidence Requirements

TOs must submit annual reports to Ofgem detailing how community funds and Delivery Costs have been used.

Documentation should be clear, well-organised, and available for Ofgem review on request.

While there is no fixed reporting template, TOs are encouraged to use a consistent format across years and projects.

5.1 TOs must submit annual reports to Ofgem detailing their use of the community funds and associated Delivery Costs. These reports must be submitted in parallel with the RRP and follow its format for consistency. However, they do not form part of the RRP itself. These reports are essential for ensuring transparency, accountability, and alignment with the objectives of the pass-through mechanism.

5.2 Each annual report must include:

- A breakdown of community fund spending by project, including the nature and purpose of the spend;
- A summary of Delivery Costs incurred at the portfolio level, including how these costs were allocated across projects;
- A statement confirming that all spending aligns with the DESNZ Guidance and the relevant licence condition; and
- Any updates to the projected or final fund size for each project, including explanations for any material changes.

5.3 TOs must retain supporting documentation for all reported Delivery Costs. This may include invoices, contracts, internal records, and evidence of community engagement activities. Documentation should be:

- Clear and well-organised;
- Sufficient to demonstrate that costs were incurred in line with the DESNZ Guidance; and
- Available for review by Ofgem upon request.

5.4 In the event of a review of Delivery Costs at the end of the price control period, TOs will be expected to demonstrate that their spending:

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- Stayed within the 10% cap based on the total fund value of eligible projects in the portfolio, including both completed and in-flight projects as defined at the time of review;
- Was proportionate to the scale and complexity of the portfolio; and
- Supported the effective delivery of community benefits.

6. End-of-Period Review of Delivery Costs

Ofgem may conduct a review of Delivery Costs at the end of the price control period (see SpC 6.1.16-6.1.20).

The review - if conducted - is intended to provide assurance that costs were reasonable, necessary, and proportionate.

- 6.1 During close-out, at the end of the price control period, Ofgem may conduct an exceptional case-by-case review of Delivery Costs incurred by TOs under the community funds pass-through mechanism.
- 6.2 This review is not automatic but may be initiated where Ofgem requires further assurance that Delivery Costs were reasonable, necessary, and proportionate to the scale and complexity of the portfolio.
- 6.3 The review will consider the following criteria:
 - Whether the total Delivery Costs remained within the 10% cap based on the total fund value of completed projects in the portfolio;
 - Whether costs were incurred in line with the objectives of the community fund and DESNZ Guidance;
 - Whether TOs maintained appropriate records and documentation to support their claims; and
 - Whether the allocation of Delivery Costs across projects was appropriate and consistent.
- 6.4 The process for the review will include:
 - A request from Ofgem for supporting documentation and a summary of delivery spending;
 - A review of submitted evidence, including invoices, internal records, and engagement materials;
 - Engagement with the TO to clarify any discrepancies or provide additional context;
 - A determination by Ofgem on whether any adjustments to the recovered costs are necessary;
 - A consultation on our decision;
 - A final decision.

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- 6.5 TOs are expected to cooperate fully with the review process and to retain all relevant documentation for the duration of the price control period and any subsequent review period.
- 6.6 Following the review, if we determine that an adjustment is required, we will issue a formal direction under the relevant licence condition in accordance with Spc 6.1.16 to 6.1.20. Before making any such direction, we will consult with affected parties and publish the proposed direction, reasons, and a representation period as set out in SpC 6.1.19.