

Governance

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

| | |
|-------------------|--|
| Publication date: | 1 April 2026 |
| Contact: | RIIO-3 Team |
| Team: | Network Price Controls |
| Email: | RIIO3@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 allowance (CAIt) mechanism. It explains eligible expenditure, reporting requirements, and how the Authority will adjust the allowance.

The CAI UIOLI is an uncertainty mechanism in RIIO-ET3 which provides upfront funding for operational expenditure associated with load-related projects (with direct costs 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.

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

© 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.

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

Contents

| | |
|--|-----------|
| 1. Introduction | 4 |
| Compliance..... | 4 |
| Amending the Governance document | 5 |
| Context and related publications | 5 |
| 2. Usage of CAI UIOLI allowances | 6 |
| 3. Reporting requirements | 7 |
| 4. Further CAI UIOLI Allowances (CAIFAt) | 8 |
| 5. Use-it-or-lose-it adjustments (CAIRt) | 9 |
| Recovery of allowances..... | 11 |
| Appendix 1 - Ineligible Load Reopener schemes | 12 |

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

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 as defined within the Regulatory Instructions and Guidance (RIGs). CAI can include activities performed by external third parties which can be referred to as ‘contractor indirects’. The RIGs set out which elements of contractor work are classified as 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 commentary 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 enables funding to be accessed as and when licensees require it. Furthermore, the ability to request additional allowances allows the overall size of the CAI UIOLI allowance to flex in line with the scale and number of projects being developed or 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 allowance and must follow the reporting requirements outlined in this document and must be efficiently incurred.

Compliance

- 1.4 The licensee must comply with this CAI UIOLI Governance Document when incurring expenditure in relation to the allowance provided by Special Condition 3.13 Closely Associated Indirects use it or lose it allowance (CAI_U).
- 1.5 The licensee must comply with the reporting requirements as set out within Standard Condition B15 (Regulatory Instructions and Guidance) of the Electricity Transmission Licence.
- 1.6 This document in no way relieves affected parties, including the licensees, from the responsibility to ensure ongoing compliance with legislation including competition, data protection, environment and consumer protection laws.

Guidance Closely Associated Indirects Use-it-or-lose-it Governance Document**Amending the Governance document**

1.7 If the CAI UIOLI Governance Document needs to be updated, Ofgem will follow the process set out under Part B of Special Condition 3.13.

Context and related publications

1.8 Our¹ RIIO-3 Final Determinations² introduced a UIOLI mechanism for supporting development and delivery of load-related projects below the £150m direct cost materiality threshold. 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.

1.9 The CAI UIOLI mechanism provides licensees with upfront allowances for indirect costs to support development and delivery of load-related projects below the £150m threshold quickly, without the need for an initial detailed regulatory assessment.

1.10 After the end of the price control period there will be a review of CAI UIOLI expenditure and final allowances will be adjusted in accordance with Part D in Special Condition 3.13 of the TO licences. This can include clawback of allowances where they are unspent, do not meet the requirements set out in this document or are spent inefficiently. It could also include an increase to allowances where additional efficient spend has been incurred

1.11 Our RIIO-3 Final Determinations provided network licensees with the following CAI UIOLI allowances (2023/24 price base) as per Appendix 1 of Special Condition 3.13.

- National Grid Electricity Transmission (NGET): £491.85m
- Scottish Hydro Electric Transmission Limited (SHET): £377.78m
- Scottish Power Transmission (SPT): £225.27m

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](#)

2. Usage of CAI UIOLI allowances

Section summary

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 RIGs):
- 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 with direct costs less than £150m and which are funded through one of 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 Use it or lose it allowance (LI)
 - Special Condition 3.18 Load Re-opener (LRt)
- 2.3 Whilst the baseline CAI UIOLI allowance has been calibrated using a 10% CAI to capex ratio, to reflect the uncertainty of delivery rather than an efficient level of CAI, the level of spend at project level can vary from this rate. This provides flexibility to licensees to manage its resources to deliver projects.
- 2.4 CAI UIOLI allowances may be used for contractor indirect costs and licensees must adhere to the delineation of indirect costs as set out in the RIGs.
- 2.5 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

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

cost categories, and the allocation methodology explained in the narrative accompanying the RRP.

- 2.6 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.
- 2.7 The right to claw back funding extends to costs for leasing Electric Vehicles (EVs) as this falls under the CAI cost category for Vehicles and Transport. Licensees who are not subject to Special Condition 3.9 (Operational transport emissions reduction Price Control Deliverable (OTEt)) can use the CAI UIOLI allowances to recover costs related to EVs. These costs must be incurred efficiently and the incremental unit rate in Table 1 of Appendix 2 may be used as a benchmark. Licensees should have justification available on the level of expenditure for EVs should the Authority request further information. We expect licensees who are subject to OTEt to recover CAI for EV leasing costs through that PCD, and not through the CAI UIOLI.
- 2.8 Where Medium Sized Investment Project (MSIP) reopeners were approved in RIIO-ET2 and allowances are provided in RIIO-ET3 under Special Condition 3.18 Load Re-opener and Price Control Deliverable (LRt), CAI funding has been included by applying the RIIO-ET2 Opex Escalator CAI uplift. Therefore, the list of schemes in Appendix 1 should not utilise CAI UIOLI allowances.

3. Reporting requirements

Section summary

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

- 3.1 The licensee must report its expenditure related to the CAI UIOLI and CAI baseline 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 the CAI UIOLI by scheme table and reflect expenditure where required in the RRP in accordance with the RIGs. This is reported separately to CAI costs recovered through baseline and reopener allowances. This is also reported separately to Pre-Construction Funding (PCF) according to the delineation between CAI and PCF outlined in the RIGs and the scope of PCF as set out in Special Condition 3.15 Pre-Construction Funding Re-opener and Price Control Deliverable.
- 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.

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

- 3.4 Additionally, licensees will separately report EV leasing costs under the Vehicles and Transport tab (V&T memo) within the RRP. This is to monitor the costs are in line with the efficient unit rates applied under the operational transport emissions reduction PCD in Special Condition 3.9.
- 3.5 For non-project specific CAI costs, these should be reported against specific schemes and the apportioning methodology provided within the RRP commentary. Licensees should also explain how this has been spent and provide justification that expenditure has been efficiently incurred. An activity flag will be used to separately report these costs within the RRP.

4. Further CAI UIOLI Allowances (CAIFat)

Section summary

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

- 4.1 The aim of the further allowances process is to increase the size of the CAI UIOLI allocation in-period where there is an increase to forecast requirements (eg additional projects are identified or project scope increases) or efficient expenditure exceeds the initial 10% allowance, and the Authority considers that the existing CAI allowance is insufficient per the requirement of 3.13.13(b).
- 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 RIIO3@ofgem.gov.uk with 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 the CAI UIOLI by scheme table in RRP.
- 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 direct costs provided through baseline allowances as these schemes were provided CAI through baseline allowances. This must include the total direct costs per scheme (both incurred and expected costs) per Regulatory Year. The list of schemes and their direct costs must be consistent with what the licensee reports in the Load Scheme C&V tab in RRP, unless there have been delays/changes to project scope/or new requirements for existing projects then these should be flagged.

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

- 4.6 Where a licensee considers the remaining 20% of CAI UIOLI allowances are insufficient for existing projects, it may include in its submission a request for additional allowances providing evidence to justify the amount required.
- 4.7 The licensee must provide an accompanying data table identifying schemes to be constructed, ie forecast schemes, for which further CAI UIOLI allowances are being requested. This must include the total forecast direct cost per scheme in each Regulatory Year. The list of schemes and their direct cost are expected to be consistent with those reported in the RRP, unless there have been delays/changes to project scope/or new requirements for existing projects then these should be flagged.
- 4.8 For schemes with direct costs 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 direct costs based on the best available information.
- 4.9 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.
- 4.10 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. In turn, the Authority will seek to ensure any SQ requests for additional information are targeted and proportionate.
- 4.11 The Authority will calculate further CAI UIOLI allowances by (1) calculating 10% of the forecast direct costs and may provide an increase in CAI UIOLI allowances to such level; and (2) assessing the licensee's request for additional allowance as provided for in 4.5 and 4.8 and adjusting the CAI UIOLI allowance accordingly. The intention is to provide further CAI UIOLI allowances with minimal burden.
- 4.12 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 propose a direction from the date of receiving the request for further CAI UIOLI allowances, consistent with paragraph 4.3. The actual duration will be dependent on the quality of information provided by licensees in accordance with the requirements set out in this document. A period for representations to be made will follow the proposed direction by the Authority and will be up to 28 days unless the Authority determines that a longer period is appropriate in accordance with Part E of Special Condition 3.13.

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

Section summary

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

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 has ended.
- 5.2 Any unused allowances, use of allowances which fail to comply with the requirements set out in this governance document or have not been spent in a way that is efficient 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 received CAI funding via the CAI UIOLI during the period. This will be conducted in tandem with the RIIO-ET3 closeout process. Reasons for allowances being adjusted either upwards or downwards can include:
 - Outturn direct costs were overall higher or lower than those forecasted at the time of RIIO-ET3 price control setting.
 - Overall CAIt allowances are considered to either over or under fund in relation to an efficient level of CAI expenditure to be determined by the Authority
 - 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 direct costs across all schemes, as reported in RRP.
 - Differences between expected direct costs to be funded through the Load Re-opener and the allowances of these schemes following project assessment.
- 5.4 The Authority will identify any inefficiently incurred costs. It will also provide a view on an efficient level of CAI expenditure related to direct costs, where we may rely on a range of benchmarking approaches.
- 5.5 Licensees will have the opportunity to provide justifications on the level of their CAI expenditure which may be taken into consideration of whether CAI expenditure was efficiently incurred, for example any supporting evidence, benchmarking or qualitative justifications.
- 5.6 CAI UIOLI allowance adjustment will consider projects under construction during the crossover period between ET3 and ET4 at ET3 closeout. The CAI UIOLI allowance will be permitted for T3 related expenditure. For crossover schemes, an allocation of CAI will be made relating to the T4 expenditure and will be based on the best view of forecast direct costs and will consider an efficient level of CAI to allocate. The allocated CAI allowances will be provided through a T4 mechanism, which could be, for example, a crossover term or a legacy CAI UIOLI allowance term. This will also apply to T3+2 connections projects.

Guidance Closely Associated Indirects Use-it-or-lose-it Governance Document**Recovery of allowances**

- 5.7 Following our assessment of the licensee's expenditure, we will publish the proposed adjustment value, explain the rationale, and invite stakeholders to provide feedback through a statutory consultation process as part of our wider RIIO-ET3 close out process in line with Section 11A of The Electricity Act 1989.
- 5.8 Following this process, we will consider all representations before modifying the value of CAIt for each licensee.

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

Appendix 1 - Ineligible Load Reopener schemes

A1.1 A list of MSIP schemes which were approved in RIIO-ET2 and have delivery dates in RIIO-ET3 will have expenditure provided through the Load Reopener. To maintain consistency with funding of CAI for RIIO-ET2 MSIP, these schemes will receive CAI allowances using the RIIO-ET2 opex escalator through Appendix 1 of SpC 3.18 Load Reopener. Therefore, the list of schemes below are ineligible for CAI UIOLI allowances.

A1.2 NGET

- i) Central Pathfinders - Yaxley
- ii) Central Reactive Voltage Compliance – Ironbridge
- iii) Central Reactive Voltage Compliance – Willington
- iv) Heysham Overload Protection Scheme
- v) Necton 400kV Substation Connection
- vi) East Anglia Operational Tripping System
- vii) Lackenby Operational Tripping System
- viii) Killingholme Operational Tripping System
- ix) Pathfinder East Anglia Operational Tripping System
- x) Penrhos 132kV Substation Connection
- xi) Wallend 400kV Substation Connection
- xii) Anglo Scottish
- xiii) Walpole Pathfinder
- xiv) Cilfynydd Pathfinder
- xv) Swansea North Greener Grid
- xvi) Upper Boat pathfinder

A1.3 SHET:

- i) SHET Tealing bypass

A1.4 SPT:

- i) SPT Branxton 400kV Substation
- ii) SPT-RI-302 Glenglass 132kV Substation
- iii) SPT-TOCO 2201 Kilmarnock South H1
- iv) SPT-RI 282 Mark Hill SGT4

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

- v) SPT SPT-RI-1742 Cockenzie Overload Protection Scheme

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