

# Governance

## Load Use-It-Or-Lose-It Governance Document

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This Governance Document is for Electricity Transmission Licensees (Transmission Owners, “TOs”) and provides information relating to their expenditure under the Load Use-It-Or-Lose-It (“Load UIOLI”). It explains eligible expenditure, reporting requirements, and how the Authority will recover any allowance by amendment.

The Load UIOLI is an uncertainty mechanism in RIIO-ET3 which accelerates funding for lower-materiality load-related projects via an allowance which can be recovered. It provides flexibility for TOs and protection to consumers and reduces regulatory burden for Ofgem.

This Governance Document links to Special Condition 3.17 of the Electricity Transmission licence for RIIO-3. It will take effect from 1 April 2026, for the RIIO-ET3 Price Control Period.

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## 1. Introduction

### Context and related publications

- 1.1 In our RIIO-3 Final Determinations<sup>1</sup> for the electricity transmission (ET) sector (RIIO-ET3), we decided to introduce a Use-It-Or Lose-It (UIOLI) mechanism to fund lower materiality load-related projects needed on the ET network.<sup>2</sup> We noted the importance of having a mechanism besides baseline funding to capture projects below the Load Re-opener materiality threshold and outside Generation and Demand Connections Volume Driver atypical thresholds.
- 1.2 The Load UIOLI provides Transmission Owners (TOs) with upfront allowances to load-related projects quickly, without the need for detailed regulatory assessment.
- 1.3 Any unused allowances will be recovered at the end of the price control period and returned to consumers in full. We may also recover allowances where projects have not met our eligibility criteria – see Chapter 3.
- 1.4 This document is issued by the Authority in accordance with Special Condition 3.17 of the TO licences.
- 1.5 Our RIIO-3 Final Determinations provided network licensees with the following Load UIOLI allowances:<sup>3</sup>
  - National Grid Electricity Transmission (NGET): £582.10m
  - Scottish Hydro Electric Transmission (SHET): £478.86m
  - Scottish Power Transmission (SPT): £332.44m

### Compliance

- 1.6 The licensee must comply with this Load UIOLI Governance Document when incurring expenditure in relation to the allowance provided by Special Condition 3.17 Load use it or lose it allowance (LIA<sub>t</sub>).
- 1.7 The licensee must comply for the reporting requirements as set out within Condition B15 (Regulatory Instructions and Guidance) of the Electricity Transmission Licence Standard Conditions.
- 1.8 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.

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<sup>1</sup> <https://www.ofgem.gov.uk/decision/riio-3-final-determinations-electricity-transmission-gas-distribution-and-gas-transmission-sectors>

<sup>2</sup> In this document we use the terms, 'Ofgem' and 'the Authority' as well as the terms 'we', 'us' and 'our' interchangeably.

<sup>3</sup> All figures in this document are in 2023/24 prices except where otherwise stated.

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**Amending the Governance document**

- 1.9 If the Load UIOLI Governance Document needs to be updated, Ofgem will publish the revised version in accordance with the procedure set out in SpC 3.17 Part C, along with an explanation of the changes.
- 1.10 Ofgem will confirm the date the changes will take effect and allow up to 28 days for feedback on proposed amendments, unless the Authority determines that a longer period is appropriate.

## 2. Eligible Expenditure

### **Section summary**

This chapter sets out expenditure that may be incurred under the Load Use-it or Lose-it mechanism.

### **Overview**

- 2.1 Expenditure under the Load UIOLI mechanisms is for load-related investment to reinforce or expand the ET network so it can meet changes in demand or generation patterns. This includes projects that increase network capacity to accommodate new connections, such as large-scale renewable generation, interconnectors, or demand growth in certain areas.
- 2.2 The Load UIOLI can also be used to fund projects to address system operability and constraint challenges that may be proposed by the National Energy System Operator (NESO).
- 2.3 Allowable load investment expenditure incurred during the RIIO-ET3 period can be recovered through the Load UIOLI which:
- meets the materiality threshold set out in paragraph 2.4;
  - meets the project scope as set out further down in Chapter 2;
  - are not otherwise funded through RIIO-ET3 baseline allowances, the Load Re-opener, the CSNP Re-opener, System Operator Transmission Owner Procedure (STCP)11.4, the SO:TO Optimisation ODI-F, or the generation or demand volume drivers; and
  - begin during the RIIO-ET3 Price Control Period and are expected to complete construction within the RIIO-ET3 Price Control Period (any projects that fail to complete during RIIO-ET3 can be assessed during RIIO-ET3 Close Out and potentially treated as part of ET3/ET4 crossover); or
  - begin during the RIIO-ET2 Price Control Period and are expected to complete construction within the RIIO-ET3 Price Control Period (efficiently incurred expenditure during the RIIO-ET2 period will be funded through the RIIO-ET2 Close Out).

### **Materiality threshold**

- 2.4 Projects funded under the Load UIOLI must cost £40m or less – any spend incurred above £40m may not be funded.
- 2.5 In certain cases the Authority may consider providing allowances for efficient costs incurred above £40m, following a submission of evidence from the licensee which demonstrates:
- the efficiency of the costs incurred on the project;

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- the cause the increase in costs such that the £40m threshold was breached;
- that the increase was beyond the reasonable control of the licensee;
- that the cost increase could not have been reasonably foreseen by the licensee when work on the project started; and
- any other project-specific factors which the authority considers relevant at the time.

## Project scope

2.6 To qualify for funding under this mechanism, projects must fall within the defined scope of expenditure as set out below:

- Atypical connection projects: volume driver projects falling outside the volume driver thresholds, specifically:
  - (1) Generation Connection projects, including all infrastructure related to that project, that are defined as atypical generation projects under Special Condition 3.11 Part B.
  - (2) Demand Connection projects, including all infrastructure related to that project that are defined as atypical demand connection projects under Special Condition 3.12 Part B for NGET.
- Demand connection projects for SHET or SPT.
- NESO-directed projects: eligible projects that receive a robust justification or 'proceed' signal from the NESO.
- Projects that have been requested in writing by the NESO relating to system operability, constraint management or 0MW connection project or substation work which is required to accommodate embedded generation.
- NESO-driven requirements: eligible projects arising from written requests by the NESO for additional investment in relation to system operability and constraint management requirements, but which the licensee has not been funded to deliver under STCP 11.4 or incentivised to deliver under the SO:TO Optimisation ODI-F.
- Harmonic filtering equipment requests: eligible projects arising from requests from TO customers to aggregate and deliver harmonic filtering requirements, or following NESO or TO system studies showing a potential breach of planning limits.
- Protection equipment: eligible projects arising from changes required to address system issues following NESO or TO system studies; including Operational Load Management Schemes, subject to the receipt of a System Operator Transmission Owner Code (STC) planning request.
- Projects to maintain NETS SQSS compliance: eligible projects arising from TO justification of the need to modify the network to meet SQSS compliance for security and system operability.

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- Site Separation projects: projects to perform site separation work due to power station closure.
- Shared Use Projects and Connection wider works.

**Types of expenditure permitted**

- 2.7 The Load UIOLI must not be used on any cost areas within the scope of our RIIO-ET3 Closely Associated Indirects (CAI) UIOLI.
- 2.8 The licensee may use the Load UIOLI on pre-construction works,<sup>4</sup> other costs associated with securing planning consent (eg biodiversity net gain requirements), and direct capital construction costs, associated with eligible Load UIOLI projects only.

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<sup>4</sup> ie (a) surveys, assessments and studies that inform environment, consenting, and design feasibility decision making; (b) project design and engineering development that move a project from being 'lines on a map' to a detailed project proposal that can be taken to the market procurement; (c) stakeholder engagement and consultation which will be key to informing project design and progressing through the consenting process; (d) tasks associated with wayleaves and easements; (e) planning applications; (f) Early Enabling Works; (g) tender activities; and/or (h) other activities as may be approved by the Authority undertaken for the purposes of developing a Load UIOLI project to the point where all material planning consents have been obtained and the project is ready to begin construction.

### 3. Use-it-or-lose-it adjustments

This chapter sets out the conditions and the timing of any Load Use-it or Lose-it adjustments.

#### Overview

- 3.1 RIIO-ET3 will end on 31 March 2031. Final adjustments to the Load UIOLI will not be able to be fully settled (or “closed out”) until RIIO-ET3 has ended.
- 3.2 Any unused allowances or allowances that are not eligible under the Load UIOLI mechanism (as set out Chapter 2) will be recovered at RIIO-ET3 close out. The extent and nature of the use of Load UIOLI allowances by the TOs may be monitored and reviewed through regulatory reporting packs (RRPs) data. Should it become clear that Load UIOLI allowances may be insufficient for TOs to undertake all work necessary during RIIO-ET3, eg due to significant cost increases or additional work being required, and if all spend to-date can be shown to be efficiently incurred, Ofgem may work with TOs to determine any uplift required through statutory modification based on the needs and customer landscape at the time.

#### Assessment of allowances to be recovered

- 3.3 The Performance Assessment Submission (PAS) is a key document that enables us to evaluate company performance in relation to close out adjustments after the end of the price control. It should provide sufficient detail to justify proposed adjustments and demonstrate compliance with agreed methodologies.
- 3.4 The licensee must include in its RIIO-ET3 PAS the proposed value of the Load UIOLI close-out adjustment, along with a clear explanation and supporting evidence for that adjustment.
- 3.5 The PAS should be submitted as part of RIIO-ET3 closeout and demonstrate how final outturn expenditure and project progress compare to the information previously reported in RRP and accompanying narratives, explaining any variances and providing relevant documentation such as cost breakdowns, milestone tracking, and justification for changes in scope or timing. This information must be presented in a clear and logical format to enable us to assess both the quantitative data and qualitative context behind the proposed adjustment.
- 3.6 We will review the information provided in the PAS. This review will include an assessment of both qualitative and quantitative evidence, as appropriate, to determine if the licensee’s the proposed adjustment is justified.
- 3.7 Our assessment will focus on but not be limited to:

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- **Eligibility:** Ensuring that projects fall within the project scope set out in Chapter 2 of this Governance Document. Any projects that do not fall within that project scope may have all expenditure disallowed.
- **Materiality:** Verifying that projects remain within the £40 million Load UIOLI materiality threshold. Projects expected to exceed £40m should seek funding through alternative routes, and any attempt to include them under UIOLI will be scrutinised and may result in any allowances incurred above £40m being disallowed. We will also ensure that licensees haven't split larger projects out in order to fall within the Load UIOLI threshold and avoid Load Re-opener scrutiny.
- **Timing:** Verifying that projects commenced construction during RIIO-ET3, or commenced construction in ET2 and are planned to complete in ET3.
- **Outturn project delivery:** assessing the impact of any projects that were cancelled or not delivered as planned, and whether the associated allowances should be recovered. Where projects are cancelled, licensees must provide a clear and comprehensive justification for any expenditure incurred up to the point of cancellation and ensure that any demobilisation is undertaken as quickly and efficiently as possible.

3.8 Through RIIO-3 close out we will engage with companies to resolve calculation discrepancies or clarify explanations in relation to Load UIOLI expenditure. Licensees may be required to provide additional or updated information during the assessment process. Requests will be targeted and time-bound to ensure timely resolution.

**Recovery of allowances**

- 3.9 Following our assessment of the licensee's PAS, 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-3 close out process in line with Section 11A of the Act.
- 3.10 Following this process, we will consider all representations before issuing a formal direction to implement the revised funding level of the Load UIOLI.

## 4. Annual regulatory reporting for Load UIOLI

This chapter sets out the reporting requirements for the Load Use-it or Lose-it mechanism.

### **Monitoring and compliance**

- 4.1 The Licensee must report on the required details for its Load UIOLI expenditure as set out in Condition B15 (Regulatory Instructions and Guidance) of the Electricity Transmission Licence Standard Conditions.
- 4.2 The Regulatory Instructions and Guidance (RIGs) provide a framework which enables Ofgem to collect data from the licensees during the RIIO-ET3 period.
- 4.3 The RIGs and RRP's allow us to monitor TOs' use of the Load UIOLI allowance and to support our determination of any adjustments to allowances at the close out of the price control.