

Decision

Modifications to the Electricity System Operator Licence – Early Competition in Onshore Electricity Transmission (CATO)

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On 2 May 2025 we published a statutory consultation on proposed modifications to the Electricity System Operator (ESO) Licence¹ to implement new licence obligations arising from its role as the delivery body of an onshore electricity transmission tender exercise run under the Electricity (Early-Model Competitive Tenders for Onshore Transmission Licences) Regulations 2025.

This document sets out our decision and rationale for introducing a new ESO Licence condition:

- Condition C18: Onshore Transmission Tender Exercises

It also sets out our decision and rationale for modification of an existing condition:

- Condition A1: Definitions

¹ [ESO Licensing Direction and Licence Terms and Conditions](#)

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1. Introduction

This section provides background details regarding the licence modification, provides details of our decision-making process and summarises the document content.

- 1.1 Competition in the delivery of onshore electricity transmission network reinforcements has an important role to play in driving innovative solutions and cost efficiencies while also providing opportunities for new investment in our onshore networks. It has the potential to play a key role in the efficient delivery of the government’s decarbonisation and Net Zero targets at the lowest possible cost to consumers.
- 1.2 In August 2024 we published our decision on the ESO Licence.² This included a licence condition which obliges the National Energy System Operator (NESO) to adhere to the Electricity (Criteria for Relevant Electricity Projects) (Transmission) Regulations 2024³ (the “Criteria Regulations”) when identifying potential projects to be competitively tendered through an Onshore Transmission Tender Exercise.
- 1.3 In April 2025, we published our decision⁴ on the Electricity (Early-Model Competitive Tenders for Onshore Transmission Licences) Regulations 2025 (the “Tender Regulations”).⁵ This followed our stakeholder consultation on the draft Tender Regulations in September 2024.⁶ The Tender Regulations formally came into force on 25 April 2025 and can be found here:
<https://www.legislation.gov.uk/uksi/2025/446/made>.
- 1.4 In May 2025 we published our consultation on proposed modifications to the conditions of the ESO Licence.⁷ Our new condition governs NESO’s conduct during its role as delivery body for an Onshore Transmission Tender Exercise. It places obligations on NESO in respect of its role as delivery body, its facilitation of appropriate information sharing between TOs and bidders⁸ and establishing provision for Ofgem to review certain aspects in relation to the conduct of an Onshore Transmission Tender Exercise.

² [Response to statutory consultation on National Energy System Operator licences and other impacted licences | Ofgem](#)

³ [The Electricity \(Criteria for Relevant Electricity Projects\) \(Transmission\) Regulations 2024](#)

⁴ [Decision on the Electricity \(Early-Model Competitive Tenders for Onshore Transmission Licences\) Regulations 2025 | Ofgem](#)

⁵ [The Electricity \(Early-Model Competitive Tenders for Onshore Transmission Licences\) Regulations 2025, Legislation.gov.uk](#)

⁶ [Draft Electricity \(Early-Model Competitive Tenders for Onshore Transmission Licences\) Regulations 2024 for consultation | Ofgem](#)

⁷ [Modifications to the Electricity System Operator Licence: Early Competition in Onshore Electricity Transmission | Ofgem](#)

⁸ [Modifications to the special licence conditions in the electricity transmission licences: Early Competition in Onshore Electricity Transmission - Decision | Ofgem](#)

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- 1.5 This decision details the modifications we are making to the ESO Licence in order to give effect to our May 2025 consultation proposal, as amended, to reflect NESO’s specific role as onshore competition delivery body.

Context and related publications

- 1.6 Other publications related to the introduction of onshore competition in electricity transmission include:
- Ofgem, [Modifications to the Electricity System Operator Licence: Early Competition in Onshore Electricity Transmission – Consultation](#), May 2025
 - Ofgem, [Modifications to the special licence conditions in the electricity transmission licences: Early Competition in Onshore Electricity Transmission – Decision](#), April 2025
 - Ofgem, [Decision on the Electricity \(Early-Model Competitive Tenders for Onshore Transmission Licences\) Regulations 2025](#), April 2025
 - Legislation.gov.uk, [Electricity \(Early-Model Competitive Tenders for Onshore Transmission Licences\) Regulations 2025](#), April 2025
 - Ofgem, [Decision on early competition in onshore electricity transmission networks](#), March 2022
 - Ofgem, [Consultation on the onshore electricity transmission Early Competition commercial framework | Ofgem](#), October 2024
 - Ofgem, [Decision on Early Competition in onshore electricity transmission networks: policy update](#), July 2024
 - Ofgem, [Consultation on Draft Electricity \(Early-Model Competitive Tenders for Onshore Transmission Licences\) Regulations 2024](#), September 2024
 - Department for Energy Security and Net Zero, [Transmission Acceleration Action Plan](#), November 2023
 - [Energy Act 2023](#), October 2023
 - [Electricity Act 1989](#), July 1989
 - [The Electricity \(Criteria for Relevant Electricity Projects\) \(Transmission\) Regulations 2024](#), March 2024
 - National Energy System Operator, [Early Competition Plan](#), April 2021
 - National Energy System Operator, [Early Competition - Implementation \(EC-I Update\)](#), February 2024

Decision-making stages

- 1.7 We received three responses to the statutory consultation, one from NESO, one from a Transmission Owner (TO) and one from an industry participant. We have included in our consideration all relevant points raised in these consultation responses, and throughout our earlier engagement with NESO, in responses in this document.

Stage 1 Consultation open: 02 May 2025

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Stage 2 Consultation closed (awaiting decision). Deadline for responses: 04 June 2025

Stage 3 Responses reviewed: 26 June 2025

Stage 4 Decision published 05 June 2026

Document Summary

1.8 We are making changes to the following licence treated as granted under section 6(1ZA) of the Electricity Act 1989:

Licensee	Licence	Acronym
National Energy System Operator Limited	Electricity System Operator Licence	NESO

1.9 Capitalised terms not otherwise defined in this document are defined in the ESO Licence. The reader should refer to Condition A1 for the relevant definitions.

1.10 The rest of this document sets out our consideration of all responses to the statutory licence modification consultation and details our modifications to the ESO Licence required to give effect to our decision.

Section 2: Condition C18 Onshore Transmission Tender Exercises

1.11 This section includes details of our decision for Condition C18 placing obligations on NESO in respect of its role in an Onshore Transmission Tender Exercise, to ensure adherence to the Tender Regulations.

1.12 This condition includes obligations to:

- set out the licensee’s obligations in respect to the conduct and review of an Onshore Transmission Tender Exercise;
- submit documentation to Ofgem which requires its approval;
- provide relevant information to those bidding; and
- comply with guidance documentation on sharing information.

1.13 This section also includes our consideration of responses to the statutory licence modification consultation questions.

Section 3: Condition A1 Definitions

1.14 This section includes new defined terms associated with Condition C18. It also includes our consideration of responses to the statutory licence modification consultation questions.

Send us your feedback

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

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

2. Condition C18 Onshore Transmission Tender Exercises

This section provides details on NESO’s role as onshore competition delivery body, summarises responses to our consultation questions regarding Onshore Transmission Tender Exercises, and includes our decision on the licence modification.

Questions

- Q1. Do you agree with our proposed drafting of new Condition C18 (Onshore Transmission Tender Exercises)?
- Q2. Do you propose any modifications to the proposed drafting of C18?

Introduction

- 2.1 Our April 2025 decision⁹ on the Tender Regulations¹⁰ sets out the roles, responsibilities and obligations governing an Onshore Transmission Tender Exercise.
- 2.2 This new condition gives effect in the ESO Licence to our decision on the Tender Regulations and NESO’s obligations in its role as the delivery body for an Onshore Transmission Tender Exercise.
- 2.3 NESO’s role in onshore competition as the delivery body running the tender includes undertaking pre-tender market engagement, preparing tender documentation, identifying qualifying bidders, assessing bids and ultimately identifying a preferred bidder.
- 2.4 As a consequence of the new Tender Regulations and to facilitate operational delivery by the delivery body, the ESO Licence requires obligations to:
- ensure the holder of an ESO Licence (NESO) adheres to the Tender Regulations and any associated guidance published by Ofgem;
 - make provisions regarding NESO’s submission of Tender Documentation for approval by Ofgem;
 - set requirements in respect of the circumstances in which NESO can request information from TOs in respect to a tender exercise;
 - oblige NESO to provide information to those preparing bids in line with the Onshore Competition Information Exchange Guidance; and

⁹ [Decision on the Electricity \(Early-Model Competitive Tenders for Onshore Transmission Licences\) Regulations 2025 | Ofgem](#)

¹⁰ [The Electricity \(Early-Model Competitive Tenders for Onshore Transmission Licences\) Regulations 2025](#), Legislation.gov.uk

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- oblige NESO to conduct Onshore Transmission Tender Exercises in an effective and efficient manner.

2.5 See paragraphs 2.1 to 2.5 of this decision’s statutory consultation¹¹ for further information regarding this condition.

Summary of consultation responses and Ofgem consideration

- 2.6 One industry participant did not make any specific comments regarding the content or drafting of the licence condition, however it did express general disappointment that Ofgem decided to reject NESO’s request to tender WCN2 as the first project in onshore competition.¹² NESO responded in support of the condition as drafted in the consultation and did not propose any further revisions to the drafting.
- 2.7 The TO respondent raised a number of concerns with the drafting of the proposed Condition C18, with a strong focus on how NESO applies its Cost-Benefit Analysis (CBA) in determining whether there is likely to be more consumer value delivering a project through a Competitively Appointed Transmission Owner (CATO) than through incumbent TO delivery, as required under the onshore competition Criteria Regulations.¹³ The issues raised by the TO, and Ofgem’s consideration of these issues, is set out below.

Responses to Q1: Do you agree with our proposed drafting of new Condition C18 (Onshore Transmission Tender Exercises)?

- 2.8 The TO does not consider that NESO’s obligations under C18.9 are adequately set out in the licence:
- We disagree that the licence drafting as proposed in the consultation is inadequate in setting out NESO’s obligations in running a tender, noting that many of the areas the TO has highlighted as not being on the face of NESO’s licence are already covered under existing legislation, primarily the Criteria Regulations and the Tender Regulations. We are satisfied that a more general obligation on NESO to run an efficient tender in accordance with the Criteria Regulations, the Tender Regulations and the Onshore Competition Information Exchange Guidance is sufficient rather than including specific details in the licence which replicate what is already in existing legislation. However, where additional drafting in the licence can provide further assurance or clarity, we have no issue including this and have made some

¹¹ [Modifications to the Electricity System Operator Licence: Early Competition in Onshore Electricity Transmission | Ofgem](#)

¹² [Onshore competition in electricity transmission: Decision on the first project to be competitively tendered](#)

¹³ [Regulation 7 of the Electricity \(Criteria for Relevant Electricity Projects\) \(Transmission\) Regulations 2024](#)

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modifications to the proposed licence in response to some of the issues raised by the TO (see below).

2.9 The TO does not consider NESO’s approach to the CBA to be sufficiently rigorous or scrutinised:

- The CBA used by NESO to determine likely consumer benefit through CATO delivery has been developed over a number of years by NESO following extensive market and stakeholder engagement and consultation. The CBA procedure is conducted by NESO and the agreed methodology it uses was consulted on by Ofgem in March 2024, with consultation responses considered and our decision published on 25 July 2024. We agree with the TO that data and inputs used in applying the CBA methodology should be based on the most up to date information available and we have decided to add a provision in NESO’s licence to ensure this happens (see below), however we have seen no evidence that there is any fundamental issue with the CBA or its application. Ofgem also needs to be satisfied that a project meets the consumer benefit criterion in the Criteria Regulations and can consider the quantitative CBA outcome as well as any relevant qualitative factors, such as those raised by the TO including system resilience and security of supply, before determining whether a project is a qualifying project under Schedule 1 of the Tender Regulations.

2.10 It is the TO’s view that an inadequate CBA undermines the competitive tendering process:

- We agree that the CBA is an important factor in determining whether tendering a project is likely to deliver consumer benefit and we would not proceed to tender where the CBA indicates greater consumer benefit is likely through incumbent TO delivery, however we do not consider the CBA to be inadequate and note no other stakeholders have raised any concerns with the CBA process.

2.11 The TO considers that the CBA lacks early and meaningful stakeholder input

- As stated above, the CBA was developed over a number of years by NESO following extensive stakeholder engagement such as webinars and NESO consultations, followed by a formal Ofgem stakeholder consultation and decision. We are content that stakeholders have had numerous opportunities throughout the development of the CBA methodology to provide meaningful input.

2.12 The TO states that the proposed drafting of C18 fails to ensure the delivery body demonstrates consumer benefit

- We disagree with this assertion. Both the Criteria Regulations and the Tender Regulations already require that consumer benefit is demonstrated as a legislative requirement in order for a project to qualify for onshore

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competition.¹⁴ Part C18.2 obliges NESO to ‘*comply with all relevant provisions of the Tender Regulations*’.

2.13 The TO considers that the CBA should consider factors such as delivery timelines, resilience risks or economic growth impacts:

- Delivery timelines (as proposed by TOs and as assumed for CATOs based on deliverability analysis) are already considered by NESO in the CBA. It is not clear how the respondent is defining or quantifying resilience risk, however given CATOs will be required to comply with all relevant Security and Quality of Supply Standards (SQSS) and industry code requirements, as well as any cyber and physical security requirements determined by DESNZ and Network and Information Systems (NIS)¹⁵ policy, which are set independently of Ofgem. There is nothing to suggest this carries an inherent cost through CATO delivery rather than TO delivery. The same applies to economic growth, as it is not clear why a project being delivered by a CATO rather than a TO, or vice versa, would have any materially different impact on economic growth that would need to be considered as part of the CBA. However, we are continuing to engage with the TO to better understand its concerns around these issues.

2.14 The TO considers that C18.9 should impose clearer, stronger obligations on NESO around transparency and accountability in the CBA process:

- We do not consider it necessary or proportionate to include further specific obligations on CBA transparency and accountability in NESO’s licence than those consulted on. We have made a decision on the CBA and NESO needs to apply that CBA in accordance with our decision in order to demonstrate consumer benefit, as required under the Tender Regulations.
- We agree with the TO that NESO’s use of data inputs when applying the agreed CBA methodology should use the most up to date information possible and have added an obligation in NESO’s licence to reflect this (see below). As a general point we agree the application of the CBA methodology supporting the consumer benefit requirement should be transparent and encourage NESO to share any non-confidential information with relevant stakeholders as appropriate.

¹⁴ Regulation 7(1), [The Electricity \(Criteria for Relevant Electricity Projects\) \(Transmission\) Regulations 2024](#) and Regulation 6(3), [The Electricity \(Early-Model Competitive Tenders for Onshore Transmission Licences\) Regulations 2025](#)

¹⁵ [The NIS Regulations 2018 - GOV.UK](#)

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Responses to Q2: Do you propose any modifications to the proposed drafting of C18?

2.15 The TO respondent also made a number of specific drafting suggestions to the proposed Condition C18. These are summarised below, with Ofgem’s consideration of the suggested drafting revisions underneath.

2.16 The TO requested an obligation on NESO to agree information sharing terms, including confidentiality, with the relevant TO before sharing project-specific data with Bidders:

- Information sharing (including confidentiality arrangements) is to be carried out in accordance with the Onshore Competition Information Exchange Guidance, which we have already consulted on and decided,¹⁶ and Part E of the proposed C18 condition obliges NESO to act in accordance with this guidance. We therefore do not consider it necessary to include additional licence conditions in C18 to cover this.

2.17 The TO suggested allowing TOs to review and amend information before it is shared to ensure accuracy and protect sensitive content:

- NESO as the onshore competition delivery body is responsible for ensuring the robustness and accuracy of any information shared with Bidders and ensuring that sensitive information is not shared with parties not subject to confidentiality agreements. We agree it may well be prudent for NESO to engage with TOs before sharing any information however we do not consider it necessary to oblige NESO to do this under its licence and consider an overarching obligation on NESO being accountable for the accuracy of information it provides to be sufficient (see below).

2.18 The TO proposed making an obligation on NESO to ensure the accuracy of information it provides to Bidders and a provision that TOs are only responsible for the accuracy of information at the time it is submitted to NESO:

- We cannot place obligations in NESO’s licence regarding TO responsibilities around provision of accurate information and it is taken as given that TOs can only be responsible for information being accurate at the time it is submitted. However, we agree with the TO respondent that a general obligation on NESO to ensure the fidelity or integrity of any TO-supplied information it provides to third parties is reasonable to include in its licence. If NESO seek to alter, amend or change any such information they will be obliged to issue notice to the respective TO beforehand to ensure the accuracy of the information supplied to Bidders. We consider that this general obligation will address a number of the concerns raised in consultation response around

¹⁶ [Modifications to the special licence conditions in the electricity transmission licences: Early Competition in Onshore Electricity Transmission - Decision | Ofgem](#)

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accountability for information provision. Additional drafting has been added in Part D at C18.17 (see below).

2.19 The TO requested an extension of the response time for more complex delivery body information requests outside of PQ / ITT stage from 14 days to 90 days and allow TOs to escalate unreasonable requests to Ofgem:

- We do not consider it appropriate to extend a response time for questions related to a TOs’ network to 90 days given the information exchange process during the ITT stage is only envisaged to take 14 days. Under the Onshore Competition Information Exchange Guidance, TOs can already request additional time if they are unable to provide a response within the required timescales and can already escalate any requests they consider unreasonable to Ofgem.

2.20 The TO proposed an obligation on NESO to allow TOs to verify accuracy of any data NESO holds and intends to use:

- We consider the broad obligation on NESO to ensure accuracy of information is a sufficient licence obligation on NESO, and to meet this obligation we would expect NESO to engage with the relevant TO without requirement to explicitly mandate this within the licence.

2.21 The TO also proposed an obligation in the licence for NESO to use existing data it already holds before requesting any information from TOs:

- We do not consider it necessary or proportionate to include a provision in NESO’s licence preventing them from requesting information it already holds, as there would be no reason for NESO to request this information. There is already an obligation in Part B at C18.8 to run a tender *in an effective and efficient manner*, which could capture any process inefficiencies such as this.

Our decision

2.22 Table 1 below sets out the revisions we are making to the proposed Condition C18 following full consideration of all stakeholder responses:

Table 1: Revisions to Condition C18 (Onshore Transmission Tender Exercises)

Reference	Change	Rationale
C18.11	New paragraph inserted to ensure NESO use of up to date data inputs in applying the CBA methodology are reviewed and kept up to date when identifying	To ensure that the consumer benefit criterion, in accordance with the CBA methodology, which NESO is required to meet under the Criteria Regulations

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	potential projects for onshore competition.	and Tender Regulations can be robustly demonstrated.
C18.17	New paragraph C18.17 inserted to create a licensee obligation to maintain accuracy and data integrity of information provided by TOs and intended for onward sharing with Bidders.	To ensure the integrity of TO-supplied information is maintained and that as delivery body NESO is ultimately responsible for the accuracy of any information it provides to Bidders at the time it is provided.
Paragraphing	Updated paragraph references throughout to reflect addition of new paragraphs C18.11 and C18.17.	Ensures the consistency of following conditions and inline references.

2.23 Following consideration of the consultation responses we have added two new substantive paragraphs to the proposed Condition C18 of the ESO Licence – a tracked version highlighting the changes that have been made has been included as an Annex to this decision document.

3. Condition A1 Definitions

This section includes the consultation responses to our proposed new licence definitions related to onshore competition, our consideration of those responses, and our decision on the necessary licence modifications to Condition A1.

Questions

- Q3. Do you agree with our proposed modifications to Condition A1 Definitions?
Q4. Do you propose any modifications to the proposed drafting of the definitions?

Introduction

- 3.1 Modifications are required to Condition A1 as there are several new or modified defined terms in proposed C18 which need to be included in Condition A1 Definitions.
- 3.2 Where a defined term has been modified for these purposes, for example to give greater specificity in wording, we have taken care to ensure this modification does not adversely impact upon on other unmodified conditions or unduly alter the intent of its global application in the conditions.

Summary of consultation responses

- 3.3 Two respondents agreed with the proposed A1 modifications as drafted and the TO respondent agreed in principle with the definitions and requested a tracked change version of the licence be published with our decision.
- 3.4 The TO respondent sought clarity surrounding the scope of the Bidder definition. The response asks to clarify that a party is only considered a “Bidder” for the duration of the tender exercise and that it ceases to be a Bidder once the award is granted (either becoming a CATO or exiting the process).
- 3.5 Additionally, the TO respondent requested clarity on whether parties who have not yet submitted a PQ questionnaire are considered Bidders and are subject to the same restrictions. The respondent also requested Ofgem to provide further guidance to remove any ambiguity around the scope and timing of the “Bidder” designation.

Consideration of consultation responses

- 3.6 We consider it appropriate that the meaning of ‘Bidder’ takes on the same meaning for the term as is provided in the Tender Regulations. Under the regulations, “Bidder” is defined as “a person, or a group of two or more persons acting together, that submits a pre-qualification questionnaire to the delivery body in accordance with these Regulations”. This is because following this stage, the Bidder can be removed from the tender exercise or be taken forward as a

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“qualifying bidder”, out of which a preferred and successful Bidder can be selected.

- 3.7 We confirm that a Bidder is only considered a Bidder for the duration of an Onshore Transmission Tender Exercise; once a licence has been awarded the tender exercise is complete and unsuccessful tender participants are no longer Bidders in respect of that project.

Our decision

- 3.8 We consider that our use of Bidder accurately reflects its meaning in Regulation 2 of the Tender Regulations and therefore is in line with the tender procedure for an Onshore Competition Tender Exercise. We have therefore decided to retain our modifications to Condition A1 as consulted on and without further revision.
- 3.9 Table 2 below shows the modifications to A1 in relation to an Onshore Transmission Tender Exercise:

Table 2: New defined terms

Term	Definition
Bidder	has the meaning given in Regulation 2 of the Tender Regulations.
Invitation to Tender Stage	means the stage of an Onshore Transmission Tender Exercise for the licensee to determine which Qualifying Bidder is to be selected to become the Provisional Preferred Bidder in respect of that Onshore Transmission Tender Exercise.
Onshore Competition Information Exchange Guidance	means the document of that name issued by the Authority in accordance with Part B of Special Condition 9.20 (Tender Support Activities in onshore electricity transmission) of the relevant Transmission Owner's Transmission Licence and referred to in Part E of Condition C18 of this licence.
Onshore Competition Information Exchange Process	means the process of sharing information during an Onshore Transmission Tender Exercise in accordance with the Onshore Competition Information Exchange Guidance.
Onshore Transmission Tender Exercise	has the meaning given in Regulation 2 of the Tender Regulations.
Provisional Preferred Bidder	has the meaning given in Regulation 2 of the Tender Regulations.
Qualifying Bidder	has the meaning given in Regulation 2 of the Tender Regulations.

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Tender Documentation	has the meaning given in Regulation 2 of the Tender Regulations.
Tender Regulations	means the Electricity (Early-Model Competitive Tenders for Onshore Transmission Licences) Regulations 2025.

3.10 An updated A1 in the ESO Licence with all changes shown in tracked changes is published as an annex to this decision document.

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4. Next steps

- 4.1 Following publication of this decision, the licence modifications will take effect on 31 July 2026 following a standard 56-day implementation period.
- 4.2 We will shortly consult on the generic CATO licence (and associated guidance) and following a subsequent decision on the CATO licence the full policy, legislative, industry codes and licensing frameworks for onshore competition will be in place.
- 4.3 We recognise that formalising the CATO licence may place further obligations on NESO in terms of its role as onshore competition delivery body and supporting Ofgem in its decision-making role; these will be identified and we will consult on the resultant modifications required to NESO's licence in due course.
- 4.4 NESO is currently assessing onshore projects from the transitional Centralised Strategic Network Plan 2 (tCSNP2), due to be published in June 2026, with the intention of identifying a first and subsequent future pipeline of projects to be tendered through onshore competition. We expect NESO to make formal requests to tender projects under the Tender Regulations later this year.