Guidance

(Draft) Competitively Appointed Transmission Owner (CATO) Guidance

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This is a guidance document for onshore electricity transmission Competitively Appointed Transmission Owners (CATOs) to accompany the generic CATO licence. It is intended to provide explanatory information relating to the CATO licence conditions including processes, roles and responsibilities, information submission requirements and obligations on a CATO.

It provides explanatory guidance relating to licence conditions being introduced for CATOs as well as detailed guidance relating to the following processes specifically related to the CATO framework:

- Post-award securities
- Preliminary works and project design
- Post-preliminary works cost assessment (PPWCA)
- Payment mechanism / Tender Revenue Stream
- Additional Works
- Agreed refinancing
- CATO of Last Resort

This guidance is currently in draft form for consultation and does not apply to any current licensees. The document does not contain detailed guidance relating to existing standard conditions within the electricity transmission licence that may also apply to a CATO, however Ofgem may provide further guidance on these in future when we begin licensing CATOs following completion of the first Onshore Transmission Tender Exercise.

For the purposes of this guidance, (i) references to the National Energy System Operator (NESO) are intended to denote the entity performing the system operator role and should be read as referring to the Independent System Operator and Planner (ISOP) as defined in the CATO licence; and (ii) references to Authority should read as referring to Ofgem.

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1. Introduction

1.1 Following Onshore Transmission Tender Exercises and the determination of a successful bidder by the National Energy System Operator (NESO), Competitively Appointed Transmission Owners (CATOs) are licensed by Ofgem to design, consent, finance, construct and operate assets on the onshore electricity transmission network.[1]

1.2 This draft CATO Guidance document is to be read alongside the generic CATO licence being consulted on and intends to provide guidance to CATOs on the functioning of the CATO licence conditions and how the key components of the CATO framework interact with the generic CATO licence.

1.3 At all times and for the avoidance of any doubt, the CATO licence conditions must be read as a whole and take precedence over this guidance. References to conditions and paragraphs, where made, are intended solely for the ease of use of the CATO licence conditions and do not constitute any type of qualification or modification of the conditions and their own internal references.

1.4 The document has been structured, as far as is practicable, to follow the chronological processes a CATO will follow in designing, consenting, financing, constructing and operating its assets, followed by explanatory guidance of other proposed CATO licence conditions.

1.5 The guidance intends to explain the obligations and requirements placed on a CATO, set out the processes, roles and responsibilities and information requirements regarding the different components of the CATO framework, and ultimately aid CATOs in their understanding of the generic CATO licence.

1.6 Some processes and information submission requirements included in the draft CATO guidance are obligated through the licence, while other guidance included in this document is intended for information or explanatory purposes. Where the generic CATO licence obliges adherence to the draft CATO guidance this will be stated in the licence. The licence has precedence over the guidance in this document.

1.7 This draft CATO Guidance will not come into force until directed through the licence awarded to a successful CATO.

Document structure

1.8 The document is structured as follows:

[1] Note that NESO, as the delivery body for early competition in onshore electricity transmission will be determining the successful bidder who will then be required to apply for a Competitively Appointed Transmission Owner (CATO) licence at Ofgem i.e., the Authority.

Chapter 2 – Post-award securities

1.9 This chapter provides guidance to CATOs on post-award security obligations, including the processes to post, maintain and adjust (taper), and call on securities. It sets out the roles and responsibilities of the CATO, Ofgem and NESO, and describes the operational mechanism under which security is held and administered by an independent third-party custodian. It explains how the Fixed Cancellation Amount (FCA) against which the required security amount may be held is calculated and managed, including permitted security forms and associated evidence requirements. It also describes the process steps and the challenge / dispute route available to the CATO during the end-to-end process.

Chapter 3 – Preliminary works and project design

1.10 This chapter provides guidance to CATOs on how to undertake preliminary works and approach project design, including managing design changes. It sets out roles and responsibilities for the CATO, NESO and Ofgem during the preliminary works period. It provides an overview of the design process and signposts relevant standards and coordination arrangements referenced in the chapter. It details the mechanism for CATOs to request Milestone Payments and sets out reporting and oversight requirements during preliminary works.

Chapter 4 – Post-preliminary works cost assessment (PPWCA)

1.11 This chapter provides guidance to CATOs relating to the PPWCA, including process steps, timings and information submission requirements. It explains the PPWCA process and how it recalculates the Tender Revenue Stream (TRS) using the CATO's financial model, including indexation and design-led changes evidenced during preliminary works. It sets out the 'reasonably foreseeable' test and the governance steps used in applying that test within the PPWCA assessment. It also covers the mechanism for applying the PPWCA upward-adjustment cap and the treatment of downward adjustments and includes worked examples.

Chapter 5 – Payment mechanism / Tender Revenue Stream

1.12 This chapter explains how the TRS is established, adjusted and recovered over the revenue period. It provides guidance on key licence formulae, adjustment mechanisms and processes that determine allowed revenue, including how the TRS is updated following the PPWCA and at Financial Close. It sets out the roles of the CATO and Ofgem (the Authority) in applying the relevant licence conditions and associated procedures. It also covers how revenue is adjusted to reflect performance and other applicable mechanisms referenced in this chapter.

Chapter 6 – Additional works

1.13 This chapter provides guidance relating to Additional Works, including how these are approached within the CATO framework. It explains the pricing approach, submissions and minimum evidence requirements, and Ofgem determinations and considerations referenced in this chapter. It also describes how Additional Works interacts with the (draft) CATO licence as set out in this guidance.

Chapter 7 – Agreed refinancing

1.14 This chapter provides guidance on agreed refinancing, including securing finance and the financing / refinancing process. It also includes worked examples referenced within the chapter.

Chapter 8 – CATO of Last Resort

1.15 This chapter provides guidance relating to the CATO of Last Resort process within the CATO framework.

Chapter 9 – Other licence conditions

1.16 This chapter provides brief explanatory guidance relating to other proposed CATO licence conditions not explicitly covered in the preceding chapters.

Appendix 1

- Worked examples of the PPWCA ‘reasonably foreseeable’ test

Appendix 2

- Post-award securities – process examples

Appendix 3

- Cumulative additional works tracker (minimum fields)

Context and related publications

1.17 The draft CATO Guidance should be read alongside generic CATO licence being consulted on. The following publications also provide further information related to the CATO framework:

- Decision and updated policy positions on the onshore electricity transmission Early Competition commercial framework, July 2025
- Decision on Early Competition in onshore electricity transmission networks: policy update, July 2024
- Early Competition Implementation – Update (NESO), February 2024
- Early Competition Plan (NESO), April 2021
- The Electricity (Early-Model Competitive Tenders for Onshore Transmission Licences) Regulations 2025, March 2025

2. Post-award securities

Section summary

This section provides guidance to CATOs relating to post-award security obligations, including the processes to post, taper down and call on securities.

Introduction

2.1. Our decision and updated policy position on the onshore electricity transmission Early Competition commercial framework introduced the post-award security obligation as a mechanism designed to mitigate the risks associated with project failure or non-delivery.[2]

2.2. This guidance explains how a CATO must comply with the post-award security obligation that applies on award of an onshore transmission licence under the Electricity (Early-Model Competitive Tenders for Onshore Transmission Licences) Regulations 2025 (the Tender Regulations),[3] and is required to be posted under Part A (Security Arrangements) and Part B (Reporting of Security Arrangements) of Condition F39 (Requirements for Security during Construction) of the CATO licence. The policy intent is to protect consumers against the risk of a CATO withdrawing or defaulting before commissioning leading to additional costs for consumers and delay in infrastructure delivery. It sets out the processes a CATO must follow to:

(a) put security in place on award of licence

(b) maintain and adjust (taper) security over the project lifecycle (including preliminary works and construction); and

(c) understand how security may be enforced and released

2.3. This chapter explains how Ofgem expects the CATO to comply with condition F39 (Requirement for Security during Construction) in practice. Where this chapter describes operational processes (for example, how evidence is packaged or who is copied), these are explanatory and do not override the licence condition or tender documentation (where that is incorporated into the CATO licence).

CATO security liability - Fixed Cancellation Amount (FCA)

2.4. This Guidance also sets out the operational mechanism under which security is administered and held by an independent third-party custodian. Following an Ofgem revocation determination (and any associated regulatory instruction or direction issued pursuant to the licence framework), the custodian applies the

[2] Decision and updated policy position on the onshore electricity transmission Early Competition commercial framework | Ofgem.

[3] The Electricity (Early-Model Competitive Tenders for Onshore Transmission Licences) Regulations 2025, legislation.gov.uk.

security mechanically in accordance with licence-defined purposes and Ofgem direction. Under this approach, the Fixed Cancellation Amount (FCA) defines the maximum security exposure available at the point of termination.

2.5. FCA is a pre-agreed sum payable on demand upon a defined termination/default event and represents the agreed monetary liability for the CATO which the Authority can direct be forfeited arising from that event, except for excluded matters (e.g., fraud/criminal offences and similar excluded categories). It is not a penalty and does not require proof of actual loss.

2.6. The FCA reflects a composite estimate of the types of costs and impacts that can arise if a CATO project terminates early (including irrecoverable development/consenting, re-procurement, advisory costs, delay impacts and transfer arrangements). These categories support the rationale for the FCA as calculated, but the FCA itself is determined solely by the FCA formula and is not calculated by summing category-by-category losses.

2.7. Under this approach, consumer protection is delivered by reducing the cost of completing the project following termination, and by supporting delivery continuity. Security proceeds are applied to offset the forecast costs of completion before those costs are reflected through existing Transmission Network Use of System (TNUoS) arrangements. This means consumers benefit through a lower transmission revenue requirement, rather than through a separate FCA settlement or rebate process. The reduced cost outcome is reported to Ofgem and subsequently provided to NESO to be incorporated through existing TNUoS arrangements.

Roles and responsibilities

2.8. This section defines the roles and responsibilities of the parties involved in the post-award security obligation – CATO, Ofgem and NESO.

CATO (licensee):

- Posts and maintains security
- Submits evidence based on which Ofgem can decide whether the securities can be tapered off
- Pays any FCA liability on a defined default / termination event
- Notifies any changes affecting enforceability of the post-award security obligation
- Works with security provider / escrow agent where relevant
- Submits information to Ofgem and NESO as required for the purposes of ensuring compliance with this obligation

Ofgem (the Authority):

- Sets and enforces the obligation through the licence and monitors compliance thereafter
- Makes determinations that trigger enforcement (e.g. revocation / default determination)

- Issues directions to NESO
- Assesses submissions of post-award security-related information from the CATO
- Coordinates with NESO on implementation of the obligation and charging treatment
- Issues an Ofgem Default Determination that is binding for the purposes of FCA crystallisation and the enforcement sequence

NESO (Delivery Body)

- Provides technical input to Ofgem where required
- Receives information on the resulting reduced cost of delivery (as reported to Ofgem) and incorporates it through existing TNUoS arrangements in accordance with its role within the charging framework
- Coordinates with Ofgem and other parties in accordance with obligations under its licence and codes as required to support implementation of the Ofgem-directed approach following a termination event

Independent third-party custodian:

- Holds security on behalf of the Authority (or as otherwise specified by the licence framework), consistent with established precedent under arrangements where security is not held by the system operator
- Acts as a mechanical administrator only on regulatory instruction, with no discretion over whether or how security is applied
- Does not assess default, calculate losses, or exercise judgement; it executes predefined actions following the regulatory trigger and Ofgem direction issued pursuant to the licence framework

Managing securities

2.9. The level of security required and how this is calculated is as follows:

- **Required security amount (at any time):** The CATO must maintain security equal to the FCA applicable at that time.
- **FCA / security formula:** FCA(t) = Security(t) = min [10% × Forecast Construction Cost(t), £50,000,000] – capital spent.
- **Capital spent:** The actual amount of capital deployed by the CATO, validated by Ofgem.
- **Initial security on licence award:** On licence award (i.e., prior to any verified physical completion), the required security amount is calculated using the Bid Construction Cost (as submitted in the successful tender), subject to the cap where applicable.
- **Cap (projects up to £1 billion):** For projects up to £1 billion, the FCA/security amount is capped at £50 million where the formula would otherwise exceed that value.
- **Projects above £1 billion:** The applicable FCA/security approach for projects above £1 billion will be set out in the tender documentation, rather

than applying an automatic cap-based approach in this guidance. Ofgem's default assumption is 5%, with any reduction below 5% in circumstances where pre-tender market evidence supports it, and always at Ofgem's discretion.

- **Adjustment ("tapering") mechanism:** The required security amount is recalculated and adjusted annually, based on verified reductions in remaining forecast construction cost driven by verified physical completion; downward adjustments are permitted as the project progresses.

Construction costs	10% amount	Cap applied?	Illustrative initial security
£400 million	£40 million	No	£40 million
£800 million	£80 million	Yes (cap £50 million)	£50 million
£1.2 billion	£120 million	Case-by-case	To be set for project

Table 1: Illustrative cap application in securities calculations

2.10. Permitted security forms (one or more) include:

- Cash deposit (held in a ring-fenced escrow-style arrangement and treated off-balance sheet for NESO)
- Letter of credit (including confirmed letter of credit arrangements where relevant, subject to minimum credit rating requirements)
- Performance bond
- Parent company guarantee, subject to minimum credit rating criteria (with reference to mirroring CUSC Section 15[4] where possible)

2.11. Security is held by the independent third-party custodian that meets criteria specified by the Authority. The custodian acts only upon receipt of a formal regulatory instruction or direction issued pursuant to the licence framework and applies the security mechanically in accordance with that instruction or direction.

Process to post, handle and call securities

2.12. Upon licence award (initial posting of securities), the CATO shall:

- Post the Initial Security within 30 days of licence award in a permitted form and amount reflecting the FCA at award (i.e., based on Bid Construction Cost and Physical Completion Percentage at that time)
- Submit the security pack to the independent third-party custodian (and copy Ofgem and any tender-specified recipients)

[4] CUSC Section 15 (CMP192) User Commitment Methodology, nationalgrid.com.

- Not commence preliminary works until the required confirmation has been issued under the custodian arrangements

2.13. Note that all instruments must have a minimum validity period of 12 months and include an evergreen clause or a replacement requirement 60 days prior to expiry.

2.14. As a minimum, the initial security pack shall include:

- Cover letter identifying project, licence reference and security amount calculation
- Executed security instrument including call mechanics and expiry / renewal arrangements
- Issuer / custodian details and signatory authority
- Confirmation of the authorised process for application of security following the regulatory trigger and Ofgem direction
- Operational notice and escalation contacts

Tapering / adjusting security

2.15. Security tapers in line with verified capital expenditure on qualifying construction costs. Unless tender documentation states otherwise, qualifying construction costs exclude pre-construction/development costs.

2.16. A tapering request must include, as a minimum, a:

- Progress statement showing the verified physical completion percentage, supported by evidence (for example, a certified construction progress report)
- Spend reconciliation to support the progress evidence (for example, payment certificates/invoices)
- Confirmation that the evidence excludes non-qualifying pre-construction/development costs
- Senior officer statement confirming the submission is accurate and complete

2.17. To reiterate, security is held against, and may only be called to satisfy, a defined liability. That liability is the FCA, which crystallises on an Ofgem default determination and is invoiced to the CATO by NESO.

Calling securities

2.18. The process for calling securities following a default / termination event is as follows:

- A defined default / termination event occurs requiring procedures set out in Condition F49 (Arrangements for Handover of Business)
- Ofgem takes the enforcement action provided for in the licence framework, including making a revocation and issuing any associated instruction or direction required under the licence framework subject to Schedule 2 (Revocation), including (where relevant) insolvency events, failure to

commence operation, loss of certification or other revocation grounds specified in the licence.

- Following the Ofgem revocation determination, the custodian applies the security in accordance with licence-defined purposes and Ofgem direction
- Where delivery transitions to a replacement delivery entity (including, where applicable, commencement of a CATO of Last Resort appointment process under Condition F50), the replacement delivery entity determines the forecast costs required to complete the project from the point of termination; Ofgem designates the replacement delivery entity as the beneficiary of the security; and the custodian releases the relevant portion of the security to the beneficiary to offset those forecast costs
- The resulting reduced cost of delivery is reported to Ofgem and subsequently provided to NESO to be incorporated through existing TNUoS arrangements

2.19. The custodian applies the security only on regulatory instruction and in accordance with Ofgem direction issued pursuant to the licence framework.

2.20. The regulatory trigger for security application is the Ofgem revocation determination. The custodian acts only upon receipt of the relevant regulatory instruction or direction issued pursuant to the licence framework.

2.21. Consumer benefit is delivered through reduced replacement cost, reflected through a lower transmission revenue requirement via existing TNUoS arrangements, rather than through a separate FCA settlement or rebate process.

2.22. Here the costs arising following termination exceed the amount of security available at the point of termination (as defined by the FCA maximum security exposure), the remaining costs of completing the project are reflected through existing arrangements.

2.23. Where any portion of the security remains unused following completion of transition and delivery, that balance will be returned to the CATO.

2.24. Where a project is cancelled for reasons not attributable to the CATO, security is released in accordance with the applicable licence framework and any further Ofgem direction.

Challenge / dispute route for the CATO

2.25. A challenge / dispute route is available to the CATO during the end-to-end process. This includes disputes related to:

- Tapering and security level adjustments
- NESO billing steps (FCA invoice and any call on security after non-payment)
- Ofgem's determinations that crystallise the FCA (including revocation/default determinations)

2.26. Where an Ofgem revocation determination has been made, it is the regulatory trigger for the purposes of applying security under the custodian arrangements. Any dispute or challenge route does not suspend the custodian's mechanical application of the security following the regulatory trigger and Ofgem direction issued pursuant to the licence framework.

2.27. For tapering disputes, this process is followed:

i. The CATO shall raise the issue promptly and notify Ofgem (and any other recipients required under the applicable arrangements) as soon as the issue is identified, with supporting evidence.
ii. The written submission should include the grounds for dispute, remedy sought and calculation / evidence pack.
iii. Ofgem may obtain verification of physical completion / progress evidence where required.
iv. Ofgem will then issue a written decision with reasons and effective date.
v. Where implemented as an Ofgem direction, public-law routes may be available (e.g. judicial review), depending on the legal form of the decision.

2.28. Disputes relating to the application of security are addressed through the applicable licence framework and any directions given by Ofgem to the custodian. The custodian acts mechanically on regulatory instruction and does not assess default, calculate losses, or exercise judgement.

2.29. Where Ofgem is considering a determination that could trigger application of security, it will follow due process and provide the CATO with the opportunity to make representations.

2.30. Depending on the legal form of the outcome, established challenge routes may be available, e.g., judicial review. Where the outcome is implemented through statutory licence modification, CMA appeal routes may apply.

3. Preliminary works and project design

Section summary

This section provides guidance to CATOs on how to undertake preliminary works and approach project design, including managing design changes. It details the mechanism for CATOs to request Milestone Payments and sets out reporting requirements.

Introduction

3.1. Preliminary works are CATO activities undertaken to develop the project to the point at which all material planning application consents have been secured, and the project is ready to commence construction. For the purposes of the licence, the activities described in this chapter align to Pre-Construction Works as defined in the draft CATO licence.

3.2. The purpose of this guidance is to provide information to CATOs regarding their responsibilities, obligations, and information handling and sharing requirements during the preliminary works period. It provides guidance to CATOs on how to design their network and how to manage design changes, details of the process for the CATO to request and receive Milestone Payments ahead of the TRS Commencement Date, the CATO's reporting requirements during preliminary works, and how the CATO licence conditions relating to the preliminary works stage should be interpreted.

3.3. Preliminary works include, but are not limited to:

- environmental, ecological, noise, land and ground surveys (assessments and studies);
- engineering and detailed project design development;
- statutory and non-statutory stakeholder and community engagement and consultation;
- tasks associated with acquiring land rights (which may include permanent rights and/ or wayleaves);
- supply chain preparation and engagement;
- preparation and submission of planning applications;
- sub-contracting-type tender activities required to be ready in advance of construction; and
- assembling and evidencing all inputs needed for Post-Preliminary Works Cost Assessment (PPWCA).[5]

3.4. The preliminary works stage begins as soon as the successful bidder selected under the Tender Regulations is awarded a CATO licence by Ofgem. Its purpose is to turn the high-level tendered solution, the Tendered Scope of Works (TSW),[6]

[5] See also, separate guidance on the PPWCA process as applicable to CATOs.

[6] The Tendered Scope of Works (TSW) sits within Part A of the Technical Annex, see note 6.

into a project design that can secure planning consents and commence construction.

3.5. The CATO must plan and develop its transmission system in accordance with the relevant parts of the Technical Annex[7] for the phase in question (pre-construction; construction and commissioning) and the tender documentation.

3.6. This chapter should be read in conjunction with the relevant CATO licence conditions, in particular:

- Condition F29 Project Specification / Technical Annex
- Condition F11 System Operator-Transmission Owner Code
- CATO licence Technical Annex
- Condition F42 in relation to the Tender Revenue Stream;
- Condition F43 in relation to the Post-Financial Close Revenue Adjustment term;
- Condition F14 Regulatory Instructions and Guidance;
- Condition F30 Provision of information to the Authority; and
- SC1 Milestone Payments.

Roles and responsibilities

CATO

3.7. The CATO is responsible for designing its assets in line with the requirements of the TSW and the associated codes and standards listed therein. The CATO must conduct its project design and delivery activities in accordance with the Construction (Design and Management) Regulations 2015 (CDM Regulations 2015)[8] and takes the role as 'Client' under these regulations.

3.8. The CATO is responsible for identifying and making design changes as required to secure planning consents and ensure design and cost efficiency during the preliminary works stage. The CATO is also responsible for delivering any Additional Works identified by NESO, such as increasing network capability or facilitating network connections in accordance with condition F36 Additional Works: Obligations in relation to offers for connection etc – further information relating to CATO delivery of Additional Works is in Chapter 6.

3.9. Whilst undertaking preliminary works, the CATO should undertake the following activities:

- plan and develop the project in line with the technical specifications set out in the Technical Annex and tender documentation;
- maintain appropriate design, planning and consenting capability;
- ensure all survey work is accurate and robust;

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[7] The Technical Annex, as set out in Condition F29 (Project Specification / Technical Annex), covers Part A – Tendered Scope of Works, Part B – Bid Baseline Solution and Part C – Post-Adjustment Solution.

[8] Further information available here.

- secure land rights and carry out statutory engagement where required;
- track risks and refine the delivery programme; and
- gather full evidence for PPWCA.

3.10. The CATO should maintain formal internal controls that demonstrate ongoing compliance with the Technical Annex and the tender documentation. These include:

- a design-to-outputs tracking record;
- a live risk and foreseeability log; and
- reporting arrangements consistent with Ofgem's Regulatory Instructions and Guidance (RIGs) and any other applicable licence reporting requirements.[9]

3.11. Ofgem may, as per Condition F29 paragraph 4, request that the CATO procures a report by an independent expert on whether the CATO is planning and developing its transmission system in accordance with the Technical Annex. Where Ofgem makes such a request, it will specify (a) the scope (for example, which parts of the Technical Annex and which project phase); (b) any specific questions to address (for example, design compliance, governance and evidence trail); and (c) the required delivery date.

3.12. Unless Ofgem directs otherwise, the CATO is responsible for appointing the expert and must ensure the expert is independent from the CATO and its wider group and has appropriate technical competence. The CATO should provide the report to Ofgem, and any supporting material requested under condition F30 (Provision of information to the Authority).

NESO

3.13. NESO sets the high-level prerequisites for the required solution to the network need within the Technical Annex which is issued as part of the tender documentation and included within Part A. The document sets out the system capability reinforcements and connection requirements that must be met by the CATO's project design.

3.14. Following the tender process, there will be no role for NESO in "approving" or "assuring" designs. There will be compliance checks undertaken by NESO on the CATO-TO connection process[10] and the commissioning process[11] in order to ensure the plant and equipment to be energised complies with the relevant standards and codes, however NESO does not formally sign off or approve designs of the transmission owners. NESO may, however, advise Ofgem on design reviews and lead any change control process established in the

[9] Condition F14: Regulatory Instructions and Guidance (RIGs).

[10] See System Operator–Transmission Owner Code Procedure (STCP) 18-5 and 19-7.

[11] See STCP 19-4.

Centralised Strategic Network Plan (CSNP)[12] should design changes have wider material network impacts.

Ofgem

3.15. Approves the TSW to be tendered ahead of tender launch.[13] Ofgem will engage with the CATO throughout the design and development phase and will undertake a review of the CATO's project design as follows:

- Prior to submission of planning consents so any concerns with the design can be considered and addressed ahead of securing planning permission
- As part of the PPWCA process see Chapter 4 (PPWCA)
- Ofgem also holds the role as final approver for any changes to the Connection and Use of System Code (CUSC), the Grid Code (GC), the System Operator – Transmission Owner Code (STC), and the Security & Quality of Supply Standard (SQSS), administered by NESO.

Overview of the design process

An overview of the design process is as follows:

1. NESO develops TSW document with input from interfacing TOs
2. Ofgem approves TSW and Evaluation Criteria
3. Tender launch
4. Bidder's high-level design, delivery, and operations strategies submitted at ITT
5. NESO evaluation
6. Successful bidder identified by NESO, licence awarded by Ofgem, successful bidder becomes CATO

[12] Centralised Strategic Network Plan (CSNP), neso.energy.

[13] The Electricity (Early-Model Competitive Tenders for Onshore Transmission Licences) Regulations 2025.

7. CATO undertakes detailed design in line with TSW & their own design, delivery, and operations strategies

8. Ofgem review of design prior to planning submission

9. PPWCA Date

10. Ofgem review of design as part of PPWCA

11. Construction Phase

12. Commissioning and Tender Revenue Stream (TRS) start

Design standards

3.16. The System Operator–Transmission Owner Code (STC) sets the framework for how NESO and Transmission Owners (including CATOs once licensed) coordinate to plan, connect, commission and operate transmission assets. It is supported by detailed STC Procedures (STCPs)[14] that describe the data, process and timing obligations at key delivery interfaces.

3.17. For design, the CATO should rely particularly on the following SCTPs:

- STCP 18-5 (CATO–TO Connections),[15] which sets the end-to-end process and roles for a CATO's physical interface with pre-existing TO networks;
- STCP 19-7 (Operational Notification & Compliance Testing),[16] which covers Energisation Operational Notification/Permission to Load/Final Operational Notification and the evidence required to demonstrate technical compliance prior to energisation; and
- STCP 19-4[17] which governs the commissioning and decommissioning of assets.

3.18. These procedures underpin compliance and energisation checks; they do not give NESO an "approval" role over the CATO's detailed asset design. In line with that division of roles explained above, NESO's involvement post-tender is

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[14] STC Code Documents, neso.energy.

[15] STCP 18-5 (CATO-TO Connections), neso.energy.

[16] STCP 19-7 (Operational Notification & Compliance Testing), neso.energy.

[17] STCP 19-4 Issue 006 Commissioning and Decommissioning

confined to code-based compliance at the connection/commissioning stages rather than approving the CATO's chosen design solution.

3.19. The required design standards are set out in the Technical Annex as well as within various STCPs and the STC. The guiding principle is that the scope will not mandate specific standards unless specified in the relevant codes or network plan (i.e., CSNP), however the CATO will need to declare in its ITT submission which standards it will apply as part of its design, delivery, and operations strategies, and the suitability of this will be assessed as part of the tender evaluation process. Wherever appropriate the CATO should also have regard to NESO's design principles.[18]

3.20. Deviations away from industry design standards will require a higher level of scrutiny and evidence requirements to determine suitability at whichever phase these are proposed (i.e. at tender stage, during the PPWCA process, or post PPWCA during construction). Ofgem expects CATOs, where applicable, to follow the guiding design principles set out in Ofgem's Pre-Approval of Solutions by Engineers (PASE) framework.[19]

Design changes

3.21. There is a distinction in the CATO licence between Additional Works (see Chapter 6) and other design changes that mean the actual network solution delivered by the CATO may be different to that included in the TSW. Other design changes are those that are identified by a CATO during the preliminary works stage that necessitate a variation to the project design included in the TSW in Part C – Post-Adjustment Solution of the Technical Annex of the CATO licence.

3.22. These changes would typically arise following ground and environmental surveys, detailed routeing analysis, or following engagement with local stakeholders and communities. Consenting authorities may also require that designs change before granting planning consents. Other design changes would also include any correction of defects or non-compliance in the CATO's own project delivery.

3.23. Design changes that occur ahead of securing planning consents will be assessed, and CATO revenues adjusted accordingly, as part of the PPWCA process – see Chapter 4 (PPWCA) for further details and a detailed explanation of this process.

[18] https://www.neso.energy/document/383761/download

[19] Load Re-opener Guidance and Submission Requirements Document, page 15.

Preparation for PPWCA

3.24. During preliminary works, the CATO should retain evidence and supporting documentation to enable the PPWCA stage to be undertaken in accordance with the relevant licence requirements.[20] This includes retaining evidence relating to:

- the final detailed project design (as developed during preliminary works);
- survey results;
- status of land rights;
- the delivery and construction plan (to demonstrate readiness to commence construction);
- the costs breakdown and associated assumptions; and
- identification and explanation of any cost drivers since being licensed that the CATO considers to be unforeseeable

Planning, consenting and land rights

3.25. During the preliminary works period, the CATO should:

- develop and progress its planning and consenting activity, including preparing and submitting planning applications where required;
- carry out statutory consultations;
- progress land rights activity and secure access required to enable construction to commence; and
- coordinate design, planning and land rights activities with relevant parties through the arrangements set out in the STC (and associated processes).

3.26. Where applicable, the CATO must coordinate all design, planning and land rights activities with any adjacent TO or CATO using the appropriate STC/STCP processes and must prepare design information in such a way that any sensitive, detailed information associated with future public consultations on licence modifications is not prematurely disclosed, to avoid prejudicing the consenting process.

Preliminary works payments

3.27. Payments to CATOs during preliminary works are optional payments made to the licensee ahead of the TRS Commencement Date and referred to as Milestone Payments. Milestone Payments will only be made available where, ahead of launching a tender and based on evidence from the market, NESO determines that payments to the CATO during the preliminary works period are required to help remove barriers to entry. This could be where the preliminary works period is expected to be a significant period of time or where there are complexities in consenting that may require significant expenditure to address.

3.28. Milestone Payments are established in SC1 Milestone Payments of the CATO licence. The value of payments will be set at the start of the tender. The

[20] Condition F46 (Application for PPWCA Adjustment) paragraph 5, CATO Licence.

maximum amount of any Milestone Payment, and the basis for setting that maximum amount, will be set out for each tender and reflected in the condition.

3.29. CATOs may recover Milestone Payments only after Ofgem has confirmed that the relevant milestone has been fully delivered and has confirmed the payment value. These payments are then netted off against the CATO's TRS as part of the PPWCA (see chapter 5 below for more details).

3.30. Milestones will be set by NESO on the basis of objective and measurable outputs identified in the original bid submission that are to be delivered during the preliminary works stage, with payments only made upon demonstrated delivery of any agreed milestone.

3.31. Delivery of milestones will be assessed by Ofgem and, if approved, an agreed lump sum payment will be made to the CATO which will then be netted off against the CATO's Tender Revenue Stream (TRS) at the PPWCA stage, in accordance with the Milestone Payment Adjustment in condition F42 (Restriction of Transmission Revenue from Transmission Owner Services), paragraphs 6-7.

Potential milestones and Ofgem approach to setting them

3.32. Potential milestones for preliminary works payments will be structured around the completion of following activity groupings:

- Surveys, assessments and studies
- Project design
- Engineering development
- Stakeholder engagement and consultation
- Tasks associated with acquiring land rights (which could include permanent rights and/or wayleaves)
- Planning applications
- Submission of all material planning applications.
- Other activities as may be approved by Ofgem

3.33. This list is intentionally framed as "potential milestones" because the tender-specific activity groupings could vary depending on the tender exercise.

3.34. Ofgem's intended approach to setting milestones is as follows:

- Step 1 (tender-specific): where 'preliminary works payments' are to apply, milestones will be set out as part of the tender documentation for that tender, with NESO engagement ahead of tender launch where adjustments are needed.
- Step 2 (milestone content): the milestones will be structured using the activity groupings above.

Review mechanism for a CATO submission to release a Milestone Payment

3.35. The review mechanism will rely on (a) structured submission / evaluation / clarifications within a tender context, and (b) Ofgem assessment/decision steps in a preliminary works context.

3.36. When the CATO considers a milestone has been Fully Delivered, it should submit a single evidence pack to Ofgem covering: (a) what was delivered; (b) why this meets the milestone definition; and (c) the costs incurred (where relevant to the payment value). Ofgem will then confirm in writing whether the milestone has been Fully Delivered and the amount (if any) that may be recovered.

3.37. Ofgem will then undertake a review process with steps for information clarification, evaluation and decision as follows:

- Step 1: Submission receipt – Ofgem receives and acknowledges CATO submission for a milestone payment.
- Step 2: Clarifications – Ofgem may issue clarification requests should any of the information submitted by the CATO require further explanation or detail.
- Step 3: Evaluation – Ofgem assesses the information provided to determine whether the milestone has been delivered and the payment should be made.
- Step 4: Decision – Ofgem will make formal decision on the CATO’s milestone payment request

3.38. Any Milestone Payments in line with special condition SC1 made prior to the PPWCA Date are netted off in calculating Base Revenue via the Milestone Payment Adjustment as outlined under Part A, paragraphs 6-7 (Milestone Payment Adjustment (MPA)) of condition F42 (Restriction of Transmission Revenue from Transmission Owner Services). The PPWCA Date is the earlier of: (a) 6 months following the licensee obtaining all material planning consents; and (b) any date directed by the Authority.

Reporting and oversight during preliminary works

3.39. The CATO must prepare RIGs compliant reporting in accordance with Condition F14 Regulatory Instructions and Guidance, covering design maturity, programme status, planning and land progress, risks, and alignment with required outputs. Ofgem will consult on the details of the RIGs that will apply to CATOs in due course.

3.40. Ofgem may require certain information to be provided by the CATO further to RIGs compliant reporting. Provision of information to the Authority requirements are set out in Condition F30 Provision of Information to the Authority.

3.41. Ofgem will specify any additional reporting requirements, which may include:

- Ad-hoc updates on specific design choices/assumptions following bilateral engagement between Ofgem and the CATO;
- updates on alignment with the Technical Annex;
- details of any planning issues and expectations arising;
- an assessment of established and new risks;

- Progress against key project milestones;
- the commissioning of independent expert reports as required; and
- any further information as reasonably requested by Ofgem

Completion of the preliminary works stage

3.42. A CATO has only completed preliminary works when:

- All material planning consents have been secured;
- land rights have been obtained;
- the necessary detailed design to enable construction is finalised and frozen;
- all necessary pre-construction surveys have been completed;
- the required evidence necessary for the PPWCA has been submitted; and
- the PPWCA can be undertaken.

4. Post-preliminary works cost assessment (PPWCA)

Section summary

This section provides guidance to CATOs relating to the PPWCA, including process steps, timings and information submission requirements, details of the 'reasonably-foreseeable' test, and the mechanism to adjust a CATO's TRS ahead of construction.

Purpose and scope of PPWCA

4.1. The PPWCA is the process to manage cost uncertainty and design variation between bid submission and Financial Close. The PPWCA process re-calculates the Tender Revenue Stream (TRS) using the CATO's financial model, updated for indexed underlying costs and Permissible Project Changes identified during preliminary works. This guidance should be read in conjunction with condition F46 hereinafter the "PPWCA condition" and Part A of Condition F42 (PPWCA Adjustment provisions).

4.2. Under paragraph 4 of the PPWCA condition, the licensee must make an application for the PPWCA Adjustment no later than the PPWCA Date.

4.3. The fundamental principle of the PPWCA is that it makes TRS adjustments for inflationary cost increases and design variations that could not be forecast or foreseen at the time of the bid. Ofgem will determine whether a cost increase is permissible,[21] and will only allow costs that reflect an economic and efficient solution and rates evidenced against the ITT stage model/market data.

4.4. The purpose of this PPWCA guidance is to provide information to CATOs regarding the roles and responsibilities around the PPWCA, detail the process steps, timings and information submission requirements, provide clarity on the type of cost increases that can be adjusted for at the PPWCA and those that cannot, and to set and manage expectations around how the actual revenue a CATO will receive be calculated and adjusted from that submitted at the time of the bid.

Roles and responsibilities

4.5. Ofgem is the decision maker for PPWCA determinations, with NESO providing supporting technical and commercial analysis as required:

Ofgem

- Runs the PPWCA process and sets the information requirements for CATO submissions. It updates underlying costs using the inflation indices included in the CATO's bid, decides which cost changes are permissible by applying the 'reasonably foreseeable' test (see para 4.21 below), determines whether any design variations and cost changes are economic and efficient, and

[21] See para 4.21 onwards below.

Applies the PPWCA upward-adjustment cap (see para 4.11 below for further explanation) to any upward cost adjustments. Ofgem then updates the adjusted and approved TRS through a licence modification. Ofgem may draw on technical and financial advisers and will seek NESO's technical assurance (for example, to confirm that a revised solution continues to meet the Technical Scope).

CATO

- Prepares and submits the PPWCA materials, including revised spreadsheets (based on information submitted at the ITT stage) applying the specified inflation indices and any justification for design-led changes, and provides clear evidence for rates and unit costs drawn from the ITT stage model or, where necessary, market data. The CATO must also identify and submit downward adjustments, and any revised design must continue to meet the Technical Scope (which Ofgem confirms with NESO). During preliminary works, the CATO is expected to engage with Ofgem (and NESO) to surface issues early and report progress updates in accordance with licence Condition F14 Regulatory Instructions and Guidance (RIGs).

NESO

- Is the onshore competition delivery body and in that role provides the Technical Scope of Works that CATOs must deliver, with input from interfacing TOs where relevant. NESO also supports Ofgem during PPWCA with technical advice, including advising whether an increase stems from circumstances that were not reasonably discoverable through the type of desktop-level assessment expected of a CATO at ITT stage, and whether the revised design still meets the network need and the tendered specification. Where Ofgem identifies potential additional design efficiencies, NESO may estimate associated cost savings using the CATO's ITT stage unit rates and chosen indexation or, where not available, market data.

PPWCA process

4.6. Under paragraph four of Condition F46 (Application for PPWCA Adjustment), the licensee must make an application for the PPWCA Adjustment no later than the PPWCA Date.

4.7. The PPWCA updates the tendered project cost to reflect information gained during preliminary works, following a consistent five-stage process, as explained below. The objective is to minimise delivery delay while ensuring decisions on costs and revenues are based on clear, verifiable evidence. The CATO must make an application for the PPWCA Adjustment no later than the PPWCA Date.

4.8. Ofgem may direct the CATO to submit a PPWCA request where necessary to avoid undue delay and keep the project programme on track. Ofgem will review and if acceptable approve the updated TRS i.e., its value and related parameters through the PPWCA. The updated TRS will not be finalised until the PPWCA and subsequent debt funding competition is concluded.

Stage 1: Indexation

4.9. This stage converts the CATO's underlying construction cost baseline at bid submission in the ITT stage into actual costs for the PPWCA by applying the indices and weightings specified in the original bid submission and adjusting these from the bid, to the PPWCA, and then to the forecast date of cost incurrence. Once selected at bid stage by the CATO, the indices become fixed for the purposes of the PPWCA.

4.10. In this stage, the CATO must apply (a) the actual index movements from tender date to the PPWCA date; and (b) the forecast index movements (using the same forecasting basis used at ITT stage) from the PPWCA date to the date each cost is expected to be incurred. The CATO must submit the revised spreadsheets showing the calculations. The CATO bears the risk that changes in selected indices do not fully reflect out-turn costs.

Stage 2: Upward adjustments limited to "reasonably foreseeable" items

4.11. This stage identifies upward adjustments to costs related to design changes that arise from reasonably unforeseeable circumstances i.e., permissible changes evidenced during preliminary works (see below), and to reject items that a diligent bidder as part of their bid using desktop information could and should have priced in as part of their bid.

4.12. Ofgem will consider, amongst other things, whether:

- CATO's application for the PPWCA Adjustment adequately addresses the information sources a competent bidder would have been expected to consult at ITT stage (as set out in the tender); and
- the absence of relevant data at bid (by any bidder) reasonably substantiates the asserted design change.

4.13. Further to paragraph 4.20 of our Commercial Framework Decision and Updated Policy Position,[22] this guidance defines and sets out the components of the 'reasonably foreseeable' test in a subsequent section of this chapter.

Stage 3: Economic and efficient check

4.14. At this stage, Ofgem assesses whether the CATO's design changes represent an economic and efficient adjustment. Ofgem will consider, amongst other things, whether: (i) the proposed design response is an acceptable value-engineered solution to the trigger; (ii) the cost build-up correctly applies rates and indexation from the CATO's ITT stage model; (iii) where no ITT stage rate exists, the CATO's procurement/benchmarking process is likely to have identified a market price for the relevant inputs or works; and (iv) the calculation reflects appropriate mitigations to minimise consumer cost.

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[22] Decision and updated policy position on the onshore electricity transmission Early Competition commercial framework, ofgem.gov.uk.

4.15. When undertaking the economic and efficient cost assessment Ofgem will adopt the same cost assessment toolkit and techniques that are used for incumbent TOs under the prevailing RIIO framework.

Stage 4: Application of the PPWCA upward-adjustment cap

4.16. Following the tests that determine whether requested uplifts are permissible and economic and efficient, the nominal construction cost (after Stage 1 indexation) is subject to a tender-specified cap to protect consumers and to incentivise accurate bid pricing, including allowances for uncertainty. Ofgem applies the cap percentage to the indexed construction costs and set the allowed construction cost (before any downward adjustments) as the lower of: (i) indexed costs plus permissible Stage 2–3 uplifts; or (ii) the capped amount. Ofgem exclude certain High Impact Low Probability (HILP) (e.g., change in law, insurance unavailability, force majeure – see below) from the cap in Condition F46 PPWCA.

Stage 5: Downward adjustments and sharing

4.17. This stage captures savings delivered by design refinements during preliminary works and ensures consumers benefit from those savings, while maintaining an incentive for the CATO to identify them proactively.

4.18. The CATO must declare any cost reduction that results from the updated design (e.g., less material, lower labour demand, reduced land requirement). Where the CATO identifies the saving, the allowed construction cost will be reduced by 90% of the accepted saving as an incentive to the CATO; where Ofgem (with the support of NESO) identifies a saving not declared by the CATO, the allowed cost will be reduced by 100% of that saving.

PPWCA process overview flowchart

Stage 1: Indexation of underlying real costs by CATO

- Identify real (tender date) construction costs by category (pre inflation, pre margin/contingency) as recorded in the Financial Model

Apply the actual change in the specified indices from tender date to PPWCA date and the forecast change to expected spend dates (using the same basis as at ITT stage)

⬇

Stage 2, step 1: CATO submissions for upward adjustments

For each upward adjustment, the CATO must set out:

- The design change vs the ITT stage design;
- The reason for change and the new information that forced it;
- Why the information was not available at ITT stage given desktop expectations;

The cost impact and how it is derived from ITT stage unit rates or, if absent, market data.

↓

Stage 2, step 2: Ofgem applies the 'reasonably foreseeable' test

- Ofgem determines whether each revenue adjustment is permissible: did the submission demonstrate that a competent bidder (using sources expected for desktop assessment at ITT stage) could not reasonably have known the information?

The 'reasonably foreseeable' test is set out in detail in the next section of this chapter.

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Stage 3: Economic and efficient cost test applied by Ofgem

For permissible application, Ofgem assesses whether the proposed solution is value-engineered and whether cost build-ups reflect ITT stage rates or robust market evidence, including mitigations and efficient practices.

↓

Stage 4: Application of the cap to upward adjustments by Ofgem (excluding HILP events)

- Compute the nominal construction cost after Stage 1 and compare it with (i) that value plus allowed adjustment and (ii) the capped amount (cap % set in tender documents).

Allowed construction cost (pre downward adjustments) is the lower of the two.

↓

Stage 5, step 1: Downward adjustment application (CATO-initiated)

- The CATO must also submit design changes that reduce costs with supporting evidence and rate derivations; Ofgem will confirm with NESO that the revised design still meets the Technical Scope.

Allowed construction cost is reduced by 90% of accepted downward adjustment (i.e., 10% sharing to the CATO to preserve incentives).

↓

Stage 5, step 2: Additional downward adjustments (Ofgem/NESO led)

- The CATO must also submit design changes that reduce costs with supporting evidence and rate derivations; Ofgem will review the full design submitted by the CATO and confirm with NESO that the revised design still meets the Technical Scope.

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Outcome: Updated TRS

Ofgem determines the updated TRS and modifies the CATO licence in accordance with the Permissible Project Change Adjustment under paragraphs 14-18 of Condition F42 Restriction of Transmission Revenue from Transmission Owner Services to give effect to the PPWCA decision.

4.19. For clarity, the PPWCA process results in the PPWCA Adjustment (PPWCAA) used in Condition F42 Restriction of Transmission Revenue from Transmission Owner Services and is comprised of: (a) the Pre-Construction Indexation Adjustment (PIA); (b) the Construction Indexation Adjustment (CIA); (c) the Permissible Project Change Adjustment (PPCA); and the Pre-Construction Additional Works Adjustment (PAWA).

4.20. Stage 1 of this process corresponds to PIA and CIA; Stage 2 corresponds to PPCA eligibility (including how Ofgem assesses whether changes are permissible); Stage 3 corresponds to Ofgem's assessment of economic and efficient costs; Stage 4 corresponds to any cap or limits set out in the tender documentation and applied in the licence; and Stage 5 corresponds to how downward adjustments and sharing are applied within PPCA.

The reasonably foreseeable test

4.21. A key principle around ensuring fair competition is that bidders cannot submit artificially low bids as part of the tender with a view to increasing costs and revenues at the PPWCA stage. As such, Ofgem decided[23] that successful CATOs would be liable for any additional costs between bid submission and the PPWCA that Ofgem determine could have been 'reasonably foreseen' by a diligent bidder based primarily on desktop studies and information that was available and accessible at the time of the tender.

4.22. This guidance intends to set expectations around our approach to applying the 'reasonably foreseeable' test, particularly what will likely be considered "reasonably foreseeable" vs "reasonably unforeseeable".

4.23. The 'baseline' elements that we expect to take into account when considering Permissible Project Changes are:

- **Diligent Desktop Bidder**: Treat something as foreseeable if a diligent bidder, exercising reasonable skill and care and primarily utilising desktop accessible information, could have discovered it at the time of bid submission from available sources (no intrusive surveys/engagement). This aligns to the ITT stage design that limits bidders to desktop/non-intrusive analysis to avoid pre-award disruption and to the role of PPWCA in re-pricing between bid and the end of preliminary works.

[23] Decision-and-updated-policy-position-on-the-onshore-electricity-transmission-Early-Competition-commercial-framework.pdf, page 23, ofgem.gov.uk.

- **Contemporaneous information**: information and/or sources timestamped on or before bid submission is considered foreseeable; information that emerges after bid submission is prima facie unforeseeable and the objective rules below. CATOs should consider any of NESO's network planning publications, Connection Agreements, code changes or other system requirements.

4.24. Below is a non-exhaustive, category-by-category classification of information likely to be considered "reasonably foreseeable" and "reasonably unforeseeable" in the PPWCA assessment.

Planning and consenting

Reasonably foreseeable	**Reasonably unforeseeable**
• The existence of statutory steps (e.g., engagement with authorities, statutory public consultation, application acceptance/decision windows) and their ordinary time/cost that are known at bid. • Published policy baselines (e.g., applicable National Policy Statements, local plans) available at bid cut-off.	• Content-specific requirements that only emerge through consultation/engagement and were not reasonably inferable from the public record at bid. • Unusually onerous planning conditions not predictable from published policy/guidance. • Policy changes made/published after the bid cut-off. • Third-party developments not in the planning system at bid and cannot be managed by coordination (e.g., neighbouring applications lodged post-bid; new infrastructure that wasn't visible at bid).

Ground conditions

Reasonably foreseeable	**Reasonably unforeseeable**
• Constraints that a desktop review would identify from information resources and/or datasets.	• Sub-surface/site-specific anomalies that could only be discovered by intrusive investigations or access-dependent site visits, for which there were no available resources and/or datasets.

External drivers that would likely be considered ‘reasonably unforeseeable’

External Driver
• Force majeure (where CATO has used best endeavours to mitigate impact on costs and programme) • Qualifying Changes in Law or regulations which were not known at the time of bidding • Design changes instructed by incumbent TO(s) that were not set out in the ITT stage interface pack or available through available resources • Third-party applications/infrastructure that were not in any public planning register at bid but arise post-bid and materially constrain the solution • Additional works agreed by Ofgem that are driven by NESO’s network planning or connections requirements will be considered to be reasonably unforeseeable and sit outside of the PPWCA upward-adjustment cap.

PPWCA information submission requirements

4.25. This section sets out the information that must be provided when submitting a PPWCA adjustment application. It consolidates the information requirements for the ‘reasonably foreseeable’ test with the materials needed to evidence indexation, design-led changes (increases and decreases), and any Ofgem-identified additional efficiencies. Submissions must be compiled as a single, coherent pack and structured so Ofgem can apply the governance pathway.

General evidence standard

4.26. Where evidence standards are specified, they should mirror those used for Milestone Payment so that PPWCA submissions are readily verifiable (for example, invoices, timesheets and contemporaneous records, where relevant). Provide document numbers/versions, dated hyperlinks/screenshots, and clear cross-references so each fact and calculation can be tested efficiently.

Information required in every submission

4.27. When submitting information in respect of the PPWCA and in demonstration of whether a CATO considers information to be ‘reasonably foreseeable’, the CATO must submit:

a) Hyperlinks and/or dated screenshots of resources utilised in conducting desktop study.

b) Causality Statement (CS) which will be a short, structured narrative that traces the chain from the newly discovered information to the required scope/design change, then to the cost/time impact. This statement is intended to reflect PPWCA’s function as a re-pricing step and addresses Ofgem’s objective to make foreseeability determinations objective. For an example of a CS, see Box 1 below:

Box 1: Example of information to be covered in a Causality Statement (CS)

1. Trigger (what changed, when it became public/known): e.g., “Consultation response dated DD/MM/YYYY required [state mitigation measure].”
2. Action created (why the trigger compels change)
3. Design consequence (what must change): e.g., “Realign/change design [state changes].”
4. Bid baseline (what was assumed at bid and why that was reasonable under desktop-only constraints): e.g., “No indicators in this respect in datasets; standard mitigation allowance priced.”
5. Nexus (why it wasn’t foreseeable at bid using desktop sources): e.g., “No evidence in public maps; requirement arose solely during statutory consultation.”

c) Quantified Impact Statement (QIS): a transparent calculation of the incremental, efficient cost and schedule impact relative to the bid baseline, net of any ordinary allowances already priced. For an example of a QIS, see Box 2 below:

Box 2: Example of information to be covered in a Quantified Impact Statement (QIS)

1. Scope changes (before vs after): drawings or simple quantity lists
2. Unit rates & sources: Where a unit appears in the bid rate book, the bidder must use that bid-consistent unit rate (subject to the agreed indexation step). Where a unit did not exist at bid, the bidder must evidence a new rate using recent, traceable market evidence (e.g., quotations, framework schedules) or, where market evidence is not reasonably available, internal benchmarks from recent comparable works, normalised for time, location, ground, and specification. All rates must be presented with clear inclusions/exclusions and reconciled to the bid overhead/profit structure.
3. Indirects/overheads: only those causally linked to the change
4. Time impact: days on the critical path; note concurrency or resequencing used to minimise delay.
5. Offsets: remove any costs already covered by bid allowances; show the net effect.
6. Sensitivity (if needed): a simple range where quantities remain uncertain pending final surveys (bounded, not speculative).

d) Mitigation Note (MN): consistent with our consumer-interest purpose for PPWCA, this note is expected to be a short explanation of options considered and why the chosen response is least-cost/least-disruption for consumers consistent with meeting legal/consenting requirements covering (i) options screened (ii) selection rationale (iii) no-betterment confirmation and (iv) interface (if any) with TO requirements or CSNP recommendations (only where relevant).

e) Ofgem expect the CS, QIS and MN to all form part of a single submission, cross-referenced to any supporting documents that may be relevant.

Indexation materials

4.28. CATOs should show the tender-date real cost categories from the ITT stage model and apply (a) the actual change in the specified indices from tender date to the PPWCA date and (b) the forecast change in those indices to expected spend dates, using the same basis as at ITT stage.

Application for design-led increases

4.29. Ofgem expect multiple applications to be submitted simultaneously as part of a single PPWCA submission. Requests for upward adjustments must include:

- The design change versus the ITT stage design and the reason for the change
- Foreseeability evidence explaining why the information was not available at ITT stage under the desktop-only benchmark, with reference to reliable sources a competent bidder would be expected to check (for example, maps, databases, archives, prior planning decisions), including timing and version status at bid
- The incremental cost build-up, using ITT stage unit rates (after indexation) or, where not available, market data/normalised internal benchmarks, reconciled to the bid overhead/profit structure
- The QIS and MN supporting the application

Application for decreases (downward adjustments)

4.30. CATOs should identify the design change that reduces cost, explain the change, and show the cost impact and rate derivation (ITT stage rates or market data). Note that Ofgem will confirm with NESO/ESO that the revised design continues to meet the tender specification/Technical Scope.

Response to potential additional efficiencies

4.31. Where Ofgem identifies potential additional design efficiencies revealed during preliminary works, the CATO must provide a justification for not taking those changes forward. Ofgem will then determine the potential saving using the CATO’s ITT stage unit costs or, where not available, market data.

Totals and cap application

4.32. The CATO must include a summary table that:

- sets out the indexed costs from Stage 1;
- lists each upward adjustment request with a column for the 'reasonably foreseeable' test and economic-and-efficient determination;
- shows the cap (as applied by Ofgem, excluding any HILP events specified in the tender documentation) and the resulting capped amount; and
- shows downward adjustments submitted by the CATO and any additional savings identified by Ofgem/NESO.

Application and governance of the 'Reasonably Foreseeable' test

4.33. Ofgem aim to provide a predictable pathway from application to decision in our application of the 'reasonably foreseeable' test within a joint NESO–Ofgem decision-making framework as follows.

Step 1: screening assessment

4.34. CATO submits hyperlinks and screenshots, the CS, QIS and MN to Ofgem for assessment. Ofgem will conduct a screening assessment of the information submitted by a CATO to examine "reasonableness" against yes/no checks

4.35. anchored in information sources record and desktop-only premise. The assessment will be conducted against the criteria in Box 3 below:

Box 3: Screening Assessment

1. Access: Was the source of information* information sources and in a clear, legible form (i.e., adopted/approved/issued/final—not a draft/beta/provisional) at or before bid cut-off? (If No → Unforeseeable)
2. Detectability: Would a competent desktop search of authoritative categories have found it (no engagement/surveys)? (If No → Unforeseeable)
3. Specificity: Is the trigger information specific enough to require a defined design/engineering response that can be costed now (i.e., it could not be costed on a desktop basis) (If No → Foreseeable)
4. Timing: Did it arise after bid? (If Yes → Unforeseeable)

* 'Information' covers new policy, dataset, requirement, instruction, or interface parameter provided by the CATO to justify cost increase as part of the PPWCA process.

Step 2: Clarification request (where required)

4.36. Ofgem assesses the information submitted by the CATO and issues a clarification request where needed to allow CATO to address any fixable defects.

Step 3: NESO's Final Technical Assessment

4.37. After confirming the information is clear, Ofgem requests NESO for Final Technical Assessment (FTA).

Step 4: Ofgem drafts a Decision Note on 'reasonably foreseeable' test

4.38. Based on the information provided by the CATO and NESO's FTA, Ofgem makes its assessment and drafts a Decision Note with the outcome, to be shared with the licensee at the end of the PPWCA process.

4.39. Worked examples of the 'reasonably foreseeable' test are found in Appendix 1 to this guidance document.

How Ofgem will assess submissions

4.40. Under Condition F46 (PPWCA) paragraph 4, the CATO is required to submit a PPWCA application by the PPWCA Date with the information set out in F46 paragraph 5a-e. Ofgem may request additional information where needed to assess the application and may seek technical advice from NESO and/or advisors to confirm scope compliance.

4.41. Ofgem's determination will be published in the PPWCA decision, and the resulting values will be applied within the revenue restriction framework and in accordance with F42 Restriction of Transmission Revenue from Transmission Owner Services.

Cap design and High Impact Low Probability (HILP) treatment

4.42. While an initial 40% assumption will guide pre-tender engagement, for the first tender Ofgem expects to set a higher cap, with the final level determined and calibrated case-by-case through that engagement. Some HILP risks may warrant separate treatment, and HILP events outside the cap such as change in law, unavailability of insurance, and force majeure will be confirmed in the tender documentation.

4.43. Further to our Decision and updated policy position on the onshore electricity transmission Early Competition commercial framework, the HILP events Ofgem has identified to be excluded from the cap are as follows:

- **Change in Law** has the meaning given in the licence. Potential evidence could include Statutory instrument or decision date; scope of new obligation as linked to required design/delivery change.
- **Unavailability of insurance** - Sudden withdrawal or unavailability of essential project insurances due to a market-wide capacity shock or exclusion change, such that cover cannot be obtained on any reasonable terms. For example, a lack of insurance for a particular type of construction

approach may require the CATO to change its construction methodology / design which has associated cost changes which sit outside of the cap. Potential evidence could include brokers'/insurers' declinatures, market circulars, confirmations of withdrawn capacity.

- **Force majeure** has the meaning given in the licence. Potential evidence could include Met Office/EA incident reports, local authority emergency declarations, government resilience notices.
- **Emergency or urgent code / standard mandates** - Urgent industry code modifications (e.g., Grid Code, CUSC, BSC, STC) designated as urgent under the relevant code procedures and Ofgem urgency criteria, where the Authority determines that fast-tracking is necessary due to material system security, safety, or consumer impact considerations. Potential evidence could include Authority (Ofgem) urgency determination; final code modification decision; date of effect; mapping to design obligations
- **Public health emergencies** are covered by the definition of Force Majeure which has the meaning given in the licence. Potential evidence could include government public-health regulations, site closure orders, guidance that directly prohibits/limits work.

Treatment of target delivery dates and schedule change

4.44. Where permissible design changes or factors outside the CATO's control require a later in-service date, Ofgem will consider an adjustment to the Target TRS Commencement Date. Ofgem will apply the same tests used for cost applications, i.e., whether the underlying cause was not reasonably discoverable at ITT stage using desktop-level information and whether the proposed response is economic and efficient so that time relief follows the same foreseeability logic as costs.

4.45. If Ofgem approves a later TRS target delivery date, Ofgem will adjust the TRS value and related parameters through the PPWCA so that the CATO is left in a not better or no worse off financial position. In making and evidencing any request, the CATO should clearly link the cause to the schedule impact (for example, the specific design change or external decision), explain the mitigations it has taken, and confirm that the revised design still meets the Technical Scope (with Ofgem seeking NESO's assurance on scope compliance).

PPWCA worked example

4.46. This worked example below illustrates how the PPWCA is applied across Stages 1–5 to fix the project's allowed construction cost from a bidder's ITT stage position through to post-preliminary-works updates:

Stage 1: Indexation (from ITT stage real to PPWCA nominal

What	How it is applied
Starting point (ITT stage)	Bidder submitted a real cost breakdown by category and, for each category, weightings to predefined indices.

At PPWCA	CATO applies: (i) the actual change in the relevant indices from tender date to PPWCA date; and (ii) the forecast change (same forecasting basis as at ITT stage) from PPWCA date to expected incurrence date for each cost category, then resubmits updated spreadsheets.

Illustrative outcome (post-indexation of underlying categories):

Category	**ITT stage (real)**	**PPWCA (indexed)**	**Notes**
Cables	£750 m	£1,005 m	Weighted indices applied
Converters	£105 m	£110 m	Weighted indices applied
Plant hire	£93 m	£98 m	Weighted indices applied
Materials (other)	£150 m	£180 m	Weighted indices applied
Labour	£113 m	£129 m	Weighted indices applied
Project management	£75 m	£86 m	Weighted indices applied
Profit & risk	-	Reapplied	Reapplied on revised totals per the bid model
Total	£1,500 m	£1,880 m	

Risk note: The CATO bears basis risk if chosen indices do not perfectly track out-turns; this can be mitigated by aligning supply contracts to the agreed indices.

Stage 2: Upward adjustment limited to reasonably unforeseeable items

Design change sought	**Driver**	**Screening against the 'reasonably foreseeable' test**	**Outcome**
Undergrounding section of onshore cable	Planning (requirement or condition of consent)	Ofgem's conclusion states that design change without precedent and not reasonably inferable at bid	Permissible as reasonably unforeseeable
Change to tower foundations	Ground conditions (softer ground)	Constraint identifiable from public datasets at bid	Not permissible as foreseeable

Stage 3: Economic and efficient check (applies only to reasonably unforeseeable changes)

What Ofgem considers	Application to this example
Value-engineered solution	Is the proposed design response an acceptable, least-cost response to the trigger?
Cost build-up and rates	Use ITT stage rates where available; where missing, demonstrate a reasonable market/benchmarking process.
Mitigations	Confirm re-optimised methods or other mitigations to minimise consumer cost.

Illustrative outcome (permissible planning-driven adjustment)

Line item	Bid line/basis	Requested uplift	Ofgem allowed	Rationale
Materials	£180 m line	+£18 m (+10%)	+£13 m	Reduced after value-engineering
Labour	-	+£7 m	+£7 m	Evidence of resequencing/efficiency accepted

Stage 4: Apply the upward adjustment cap

Figure	Value
Tendered project costs	£1,500 m
Indexed project cost (after Stage 1)	£1,880 m
PPWCA project cost after Stages 2 and 3	£1,900 m
Cap level (illustrative)	140% of indexed costs → £2,403 m
Capped PPWCA cost	£1,900 m (unchanged, below cap)

How the cap is applied: Cap % is applied to the indexed amount (Stage 1). The allowed construction cost (pre-downward adjustments) is the lower of: (i) indexed costs + permissible, economic-and-efficient uplifts (Stages 2 and 3); and (ii) the capped amount.

Stage 5: downward adjustments and sharing

Illustrative saving	Amount	Sharing Example	Effect

Following the cancellation of the third-party tidal project, a more direct subsea route is available, which reduces vessel time.	£20 m (plant hire £15 m; labour £5 m)	10% sharing rate (illustrative)	£2 m reduction to allowed construction cost

Note: Ofgem may ask a technical adviser to compare the post-preliminary-works design with the tender design to confirm whether undeclared reductions ought to be captured.

End-to-end overview

Checkpoint	**Value**
ITT stage (real)	£1,500 m
Stage 1 (indexed)	£1,880 m
Stages 2 and 3 (permissible, efficient uplifts)	£1,900 m
Stage 4 (cap applied)	Cap £2,403 m → £1,900 m remains
Stage 5 (saving & sharing)	−£2m to allowed construction cost (with 10% sharing example)

Interpretation of this chapter

4.47. This chapter should be read together with Conditions F46 (Application for PPWCA Adjustment), F42 (Restriction of Transmission Revenue from Transmission Owner Services) in relation to the PPWCA Adjustment and any other relevant Condition(s) of the CATO licence.

4.48. Paragraph 8 of Condition F42 provides for guidance on the PPWCA Adjustment issued (and revised) by the Authority.

5. Payment mechanism / Tender Revenue Stream

Section summary

This section explains how the Tender Revenue Stream (TRS) is established, adjusted and recovered over the revenue period, including the application of licence formulae and adjustment mechanisms.

It sets out how revenue is updated following the PPWCA and at Financial Close, and how performance and other mechanisms affect allowed revenue over time.

Introduction

5.1. The CATO will receive its revenue payments during the operational period through the mechanism of a Tender Revenue Stream (TRS). This revenue payment is based on the annual figure bid during the tender process and subsequently updated following the Post-Preliminary Works Cost Assessment (PPWCA) and at Financial Close through a combination of indexation and Ofgem cost assessment.

5.2. The TRS is further adjusted to reflect actual performance relating to availability and other applicable performance incentives, any additional work requirements on a CATO, qualifying Income Adjusting Events and pass-through costs to ensure that the revenues a CATO receives reflect the actual performance of the assets it operates.

5.3. The purpose of this guidance is to explain how the CATO payment mechanism operates in practice, including how the Tender Revenue Stream (TRS) is established, adjusted and recovered over the revenue period. It provides clarity on key licence formulae, adjustment mechanisms and processes that determine allowed revenue. It highlights the respective roles of the CATO and Ofgem (the Authority) for the benefit of CATO licence users in applying the conditions. The chapter is intended to support consistent interpretation of the relevant licence conditions and to ensure transparency in how revenues reflect efficient costs, performance and exogenous events over time.

5.4. This chapter should be read in accordance with Conditions F42 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services) and F43 (Restriction of Transmission Revenue: Post-Financial Close Revenue Adjustments) as well as other related conditions, which have been referenced from time to time throughout. The chapter intends to provide further information around the functioning of the revenue calculation formulae contained in these licence conditions and associated procedures which a CATO is required to follow.

Tender Revenue Stream

Bid TRS

5.5. The Bid TRS is the original notional revenue stream set out in the CATO's bid submission at the ITT stage which forms the Tender Base Date. This is the starting point from which to update the TRS at PPWCA (see PPWCA guidance for further details).

5.6. The licence conditions governing the Tender Revenue Stream (TRS) set out that the original Bid TRS is then converted into a regulated Base Revenue (BR) figure at Financial Close.

5.7. BR is adjusted within the Revenue Period through the mechanisms explained below. Details of the original Bid TRS and the Tender Base Date are included in an annex to the Project Specification.[24]

PPWCA

5.8. The PPWCA provisions in the licence under Condition F46 PPWCA allow for adjustments to the original Bid TRS to reflect the real, evidenced project cost base at the point of Financial Close including any revenue provided during the preliminary works stage, cost variations resulting from permissible design variations, indexation and additional works.

5.9. These are adjustments from the Bid TRS to the 'real project'. Between ITT submission and PPWCA, CATOs obtain new information: site conditions, surveys, planning details, design refinements, updated inflation data and any pre-Financial-Close Additional Works.

5.10. For full details on the PPWCA please refer to Chapter 4 (PPWCA).

PPWCA Adjustment (PPWCAA)

5.11. During Preliminary Works and around Financial Close, the PPWCA Adjustment (PPWCAA) under Condition F42 Restriction of Transmission Revenue from Transmission Owner Services is calculated with four adjustments to modify the CATO's TRS as follows:

$$PPWCAA = PIA + CIA + PPCA + PAWA$$

where:

- PIA means Pre-construction Indexation Adjustment, as set out in Condition F42, paragraphs 9-10;

[24] Will include: (i) Annex 1: The Project Specification (NESO's network requirements); (ii) Annex 2: The original bid submission details, including Bid TRS, design, etc; and (iii) Annex 3: The detailed output to be delivered, updated TRS as adjusted at PPWCA & Financial Close.

- CIA means Construction Indexation Adjustment, as set out in Condition F42, paragraphs 11-13;
- PPCA means Permissible Project Change Adjustment, as set out in Condition F42, paragraphs 14-18; and
- PAWA means Pre-construction Additional Works Adjustment (PAWA), as set out in Condition F42, paragraphs 19-20.

5.12. Each adjustment is determined using the Financial Model and Ofgem must approve the CATO's submitted values during the PPWCA process. Details on the operation of each adjustment are outlined below.

Pre Construction Indexation Adjustment (PIA)

5.13. Under Condition F42, paragraphs 9-10, PIA adjusts Tender Project Costs from the Tender Base Date to the PPWCA Date, using actual outturn inflation for the relevant cost indices.

5.14. PIA is calculated:

- Using actual published values of the Project Indices (as listed in the Project Specification); and
- With indexation mapped to each cost category exactly as in the Financial Model.

5.15. The calculation must be done using the Financial Model as confirmed or specified by notice by Ofgem, not bespoke spreadsheets.

5.16. PIA evidence requirements:

- Official index publications covering the full Tender Base Date to PPWCA Date period;
- Breakdown of applicable indices per cost line; and
- A model run showing the PIA derivation.

Construction Indexation Adjustment (CIA)

5.17. Under Condition F42, paragraphs 11-13, CIA forecasts inflation from the PPWCA Date through the construction period, based on the project's expenditure profile.

5.18. CIA is calculated:

- Using Approved index forecasts (provided as part of PPWCA guidance) for each Project Index.
- Applied to the detailed cost expenditure phasing in the Project Specification.
- Through the Financial Model using a forward inflation curve.

5.19. CIA evidence requirements:

- A phasing schedule showing timing of each cost element;
- Approved index forecast tables; and
- A Financial Model output showing CIA contribution to TRS.

Permissible Project Change Adjustment (PPCA)

5.20. Under Condition F42, paragraphs 14-18, the PPCA incorporates cost changes associated with Approved Permissible Project Changes. The PPWCA guidance discusses permissible project changes, the process for their approval and the related evidence requirements.

5.21. How PPCA is calculated:

- Uses Approved Change Costs only.
- Includes both:

  (1) changes in total Project Costs; and

  (2) changes in cost timing (affecting indexation and financing).

5.22. The PPCA incorporates an asymmetry rule: the CATO retains 10% of cost savings, ensuring that 90% are passed through to consumers via a reduction in the TRS.

5.23. Under Condition F42 this cap is expressed as:

$$PPCA \leq 0.4 \times (TRS + PIA + CIA)$$

Pre-Construction Additional Works Adjustment (PAWA)

5.24. Under Condition F42, paragraphs 19-20, PAWA covers Additional Works that the CATO becomes contractually obliged to undertake before Financial Close.

5.25. PAWA is calculated by identifying Ofgem-approved, efficient Additional Works costs incurred before Financial Close and using the Financial Model to determine the corresponding uplift to the Bid TRS.

5.26. Ofgem must approve:

  (1) the scope as valid “Additional Works”; and

  (2) the proposed costs as efficient and economic.

5.27. Once approved, the costs are incorporated in TRS through the Financial Model.

5.28. PAWA evidence requirements:

- Documentation showing NESO instruction or regulatory requirement;
- Scope and cost estimate following industry tendering/benchmarking norms;
- Justification for timing and necessity;
- Model run showing TRS uplift attributable to PAWA.

PPWCAA regulatory approval

5.29. Under Condition F42, paragraph 36, Ofgem may:

- approve the CATO’s submitted values;
- approve them subject to changes submitted by the CATO;
- substitute its own determination.

5.30. All PPWCA submissions must:

- be accompanied by the full Financial Model run;
- clearly show each adjustment in isolation;
- respond to any Add Info requests within the statutory period;
- be evidenced with externally verifiable data.
- Failure to provide adequate evidence may lead Ofgem to disallow costs.

Interaction with base revenue

5.31. The PPWCAA directly affects every year's Allowed Revenue. After Ofgem approves PPWCAA, it flows into the Base Revenue (BR) calculation set out under Condition F42, shown as:

$$BR = TRS - MPA + PPWCAA + DFCA + MRA$$

where:

MPA means the Milestone Payment Adjustment;

DFCA means the Debt Funding Competition Revenue Adjustment; and

MRA means the Market Rate Revenue Adjustment.

Boundary between PPWCA and post-Financial Close Adjustments

5.32. Costs and risks addressed through the PPWCA are, by design, excluded from the post-Financial Close re-opening mechanisms. The PPWCA captures cost movements and approved scope changes up to Financial Close, while Condition F43 Restriction of Transmission Revenue: Post-Financial Close Revenue Adjustments applies only to events and circumstances arising thereafter.

5.33. This clear separation ensures that pre- and post-Financial Close risks are treated distinctly and prevents double recovery.

Adjustment factors

5.34. The conditions covering the revenue adjustment factors ensure that the TRS reflects efficient market financing and that over- or under-recovery is corrected. The Debt Funding Competition and Market Rate adjustments ensure that any financing gains or losses relative to bid assumptions are transparently returned to consumers. The correction factor (Kt) ensures that any variation between the revenue due to the CATO and the revenue received is reconciled.

Debt Funding Competition Revenue Adjustment (DFCA)

5.35. The DFCA will reconcile the CATO's assumed financing terms in the Tender Term Sheet with terms actually obtained via the debt funding competition, which the CATO must submit and have approved by Ofgem in accordance with Condition F42, paragraph 22. The value is determined using the Financial Model.

Market Rate Adjustment (MRA)

5.36. The MRA is the mechanism that adjusts that Bid TRS at Financial Close to reflect actual market rates discovered, replacing assumptions. After MRA (and other financing adjustments outlined in the PPWCA section), the Bid has been transformed into Base Revenue (BR).

5.37. The MRA reconciles assumed market rate parameters with rates discovered under a market-rate discovery methodology and financial close protocol which the CATO must submit to Ofgem in line with Condition F42, paragraph 26. The value is determined using the Financial Model.

Revenue Restriction Correction Factor (K_t)

5.38. Kt provides the primary mechanism for reconciling differences between allowed revenue and actual revenue recovered in the previous year, AR_{t-1}. Where Regulated Transmission Revenue (ARt) exceeds or falls short of Allowed Transmission Owner Revenue ($CATO_t$), K_t adjusts allowed revenue in the following year to correct that variance, with interest applied where appropriate, in line with the calculation methodology set out in Condition F42, paragraph 32.

5.39. As a result, normal over or under recovery is expected to be addressed automatically through K_t. The intervention thresholds in Condition F45 Restriction of Transmission Revenue: Adjustments are therefore expected to be triggered only in exceptional or persistent circumstances.

Availability incentive

5.40. The availability incentive adjusts revenues to reflect the level of asset availability for the NESO in each year of the revenue period. Asset availability is measured in accordance with formal measurement rules to reflect actual transmission system availability. The mechanism combines:

- obligations requiring CATOs to maintain and repair their assets to minimise outages; and
- financial incentives which adjust revenue based on actual availability performance.

5.41. The availability incentive is translated into revenue adjustments using an Availability Factor. See further details at 5.58 – 5.59 below. This ensures that availability is measured consistently to maximise network availability and that the resulting payment adjustments are applied mechanically and predictably in line with the formula adjustments to revenue set out in Condition F44 Restriction of Transmission Revenue: Availability.

CATO Obligations Relating to Availability

5.42. The target availability for the CATO is normally 98%, unless otherwise specified. Information on Unavailability is determined by the total Energy Outages recorded by the NESO control room equipment or by submissions from the CATO regarding its assets' Operational Capability Limit (OCL) and Service

Capability Schedule (SCS). These are then calculated under Condition F44. See the measuring availability section of this chapter below for further information.

5.43. The CATO is expected to:

- operate its system in line with Good Industry Practice;
- comply with the obligation to provide Transmission Owner Services to NESO; and
- minimise the effect and duration of any Transmission Service Reduction.

Notification obligations

5.44. Where the CATO expects a Transmission Service Reduction to last more than 21 days, it must notify Ofgem within 7 days of the reduction occurring, providing:

- the impact on Transmission Services;
- the cause of the reduction, including whether an Exceptional Event is involved;
- interim actions being taken; and
- expected timescales for rectification, supported by any Service Restoration Proposal agreed with NESO.

Performance below minimum availability levels

5.45. If availability falls below:

- an average availability of 78% in any Incentive Period; or
- the threshold set for the combined 24-month period (y and y-1),

the CATO must submit a written statement within three months explaining how it has complied with Condition F13 and the obligations set out in Condition F44, paragraph 3.

Overview of the availability incentive mechanism

5.46. The availability incentive adjusts revenue in the Relevant Year (t) based on availability in the Incentive Period (y) (where y = t, except for special cases where the TRS Commencement Date falls between 1 January and 31 March).

5.47. Subject to modifications for Relevant Years 1, 2 and 37, as set out in the licence at F44, paragraph 6, the adjustment term is:

$$AIt = BR(t\text{-}1) \times AF_y$$

where:

- BR_t means the Base Transmission Revenue;
- PR_t means the proportion of revenue calculated; and
- AF_y means the transmission system availability factor

Measuring availability

5.48. Availability is assessed by measuring physical reductions in capability as Energy Outages (EO_x), and then into an annual Unavailability Percentage (UP_y).

Energy Outage (EO_x)

5.49. CATO Transmission Service Reductions will be converted into Energy Outages (EO_x), in line with Condition F44, paragraph 8.3.

5.50. For each Transmission Service Reduction x:

$$EO_x = CR_x \times D_x$$

where:

- CR_x means capability reduction below Normal Capability Limits; and
- D_x means duration in hours.

Annual unavailability calculation

5.51. Unavailability will be summed over the year and divided by the Maximum Transmission System Availability to form the Unavailability Percentage (UP_y).

The UP_y is calculated as:

$$UP_y = (\Sigma\ EOx) / TC_y$$

where TC_y is the Maximum Transmission System Availability, incorporating seasonal Normal Capability Limits and hours in each period.

Paid Out Unavailability and Revenue Caps

5.52. The availability incentive includes a structured system of caps and carry-forward provisions.

Paid Out Unavailability (PO_y)

5.53. Paid-Out Unavailability (PO_y) is the level of unavailability used for the revenue adjustment in each Incentive Period:

$$PO_y = \min(CCAP + PCAP, BF_y + AU_y \times (365 / Days\ y))$$

where:

- AU_y means Accrued Unavailability;
- BFy means Brought-Forward Unavailability from the previous year;
- CCAP means Credit Availability Cap;
- PCAP means Penalty Availability Cap; and
- Days y means number of calendar days in the Relevant Year.

Accrued Unavailability and Caps

5.54. Accrued Unavailability is calculated as:

$$AU_y = \min(TCAP, UP(y-1))$$

Carried Forward Unavailability

5.55. Any difference between accrued and paid-out unavailability is carried forward and calculated as follows:

$$CF_y = AU_y + BF_y - PO_y \times (\text{Days } y / 365)$$

Purpose of the caps

5.56. These caps ensure that:

- annual revenue bonuses are limited (via CCAP and RCAP);
- annual penalties are limited (via PCAP); and
- multi-year cumulative exposure is limited (via TCAP).

5.57. Under the CATO regime annual exposure is capped at ±10% (penalty) and +5% (credit) with overall exposure over five years.

Availability factor (AF_y)

5.58. The Availability Factor (AF_y) converts unavailability into a revenue impact and is calculated as follows:

$$AF_y = (CCAP - PO_y) \times (RCAP / PCAP)$$

where:

- RCAP = Revenue Impact Cap; and
- PCAP = Penalty Availability Cap.

5.59. The resulting AF_y will generally lie within the range specified by the CATO licence (equivalent to +2% to –4% in availability terms, scaled by RCAP). This mirrors the existing OFTO structure, where AF_y produces a revenue range of +5% to –10% annually.

Exceptional Events

5.60. Exceptional Events are events beyond the reasonable control of the CATO which cause or contribute to a Transmission Service Reduction and covered by Force Majeure as defined in the CATO licence definitions list accompanying the CATO licence conditions.

5.61. It is important to note that Exceptional Events are a facility for handling exogenous events which are wholly outside the CATO's control and which directly affect the CATO's performance.

5.62. For the context of the availability incentive, this means if a severe, unforeseeable external event prevents normal operation of a CATO's assets and Ofgem agree that it is an Exceptional Event, the resulting outage may be excluded from availability penalties normally applied to outages, where the CATO is found by Ofgem to have acted reasonably. Additional costs driven by Exceptional Events need to be assessed under the Income Adjusting Event mechanism to determine whether, and to what extent, revenue should be adjusted.

5.63. Exceptional Events are not intended to remove performance incentives, nor to insulate CATOs from all operational risk. Instead, they provide a targeted mechanism to address HILP events that could not reasonably have been foreseen or mitigated at the time of bidding or operation.

Informing Ofgem of Exceptional Events

5.64. If the CATO considers that a Transmission Service Reduction has been wholly or partially caused by an Exceptional Event, it must notify Ofgem within the timeframe specified in Condition F44 and provide the information required by that condition, including the anticipated duration and supporting evidence.

5.65. The CATO should include: (a) event description and timing; (b) evidence that the cause was beyond its reasonable control; (c) the quantified availability impact (including capability reduction and duration); and (d) what steps were taken (before and after the event) to manage and mitigate the impact consistent with Good Industry Practice.

5.66. Ofgem may direct an adjustment to the calculation of unavailability to offset the impact of an Exceptional Event where it is satisfied the event meets the definition and the CATO acted reasonably.

How Ofgem considers Exceptional Events

5.67. In assessing whether an Exceptional Event has occurred, Ofgem will consider the specific facts and circumstances of the case, including:

- whether the underlying cause of the event was beyond the reasonable control of the CATO;
- whether the CATO has taken account of the information available and Good Industry Practice;
- whether the event was reasonably foreseeable at the time of tender or during operation; and
- the extent to which the CATO took reasonable and proportionate steps to anticipate, mitigate and respond to the event.

Relationship to availability and revenue adjustments

5.68. Where an Exceptional Event is accepted, its treatment focuses on the impact on incentivised outcomes, rather than on the event itself. In practice, this means that Ofgem may exclude some or all the service reduction attributable to the event from availability or revenue adjustment calculations, to the extent justified by the circumstances.

5.69. Exceptional Events protect CATOs from unfair availability penalties under Condition F44, but do not provide cost recovery; any financial impacts must be addressed separately under the post-Financial Close revenue adjustment mechanisms in Condition F43.

Adjustment process

5.70. If the CATO considers a reduction to be caused in whole or in part by an Exceptional Event, it may request an adjustment to AU_y (Accrued Unavailability as calculated).

5.71. The CATO must, as set out in Condition F44, paragraph 9:

- notify Ofgem within 14 days of the event;
- provide full details, including duration and supporting evidence; and
- provide any additional information requested.

Ofgem's assessment

5.72. Ofgem may direct adjustments to the Accrued Unavailability for the Relevant Year AU_y and/or the AF_y, following assessment of:

- whether the event meets the definition of an Exceptional Event; and
- whether the CATO acted in line with Good Industry Practice in preventing and mitigating the event.

5.73. In determining the appropriate adjustment, Ofgem will take into account:

- the scale and duration of the service reduction caused by the event;
- the actions taken by the CATO to restore capability, including speed of response and efficiency of remediation; and
- whether insurance or other commercial protections were reasonably available and appropriately used.

5.74. Before directing an adjustment, Ofgem will:

- consult the CATO on the proposed adjustment; and
- consider any representations.

Reporting requirements

5.75. In line with reporting duties under Condition F44, the CATO must:

- submit quarterly unavailability reporting (within 14 days of period end), including:
  - Accrued Unavailability for each month; and
  - commentary on any month where availability fell below Target Availability;
- notify Ofgem within 7 days where reductions exceed 21 days;
- notify of Exceptional Events within 14 days; and
- maintain full Operational Capability Limit (OCL) and Service Capability Schedule (SCS) records supporting all capability assessments.

Other incentives

5.76. Other incentives may apply to CATOs where appropriate and proportionate to the early competition model. The availability incentive, alongside the design of the TRS, will provide the primary financial driver of performance. Accordingly, incentives for CATOs are not intended to replicate the suite of incentives applied to TOs under the RIIO price control framework. Other incentives for CATOs may draw on relevant RIIO approaches for transparency and reporting but will be tailored to reflect the scope and characteristics of the CATO project.

5.77. For CATOs, “other incentives” are implemented primarily as reputational incentives, rather than through financial adjustments to revenue. This reflects the project-specific nature of CATOs, the existing financial incentives embedded within the early competition model, and the need to ensure that the incentive framework remains proportionate and does not introduce unnecessary complexity.

5.78. Where “other incentives” are applied, CATOs are required to comply with defined reporting and publication requirements that Ofgem requests or publishes from time to time.

5.79. Ofgem may review the use of reputational incentives over time and, where appropriate and proportionate to the characteristics of a CATO project, may consider the introduction of a financial element to such incentives in future.

Stakeholder Engagement Incentive

5.80. CATOs are expected to follow the same New Infrastructure Stakeholder Engagement Survey (NISES) expectations as existing onshore transmission licensees (TOs) under RIIO-ET3. This involves conducting stakeholder surveys, publishing annual results and demonstrating continuous improvement in engagement quality.[25]

Environmental Incentive: Environmental Action Plan (EAP) and Annual Environmental Reporting (AER)

5.81. This incentive seeks to ensure that CATOs set out clear environmental commitments and report transparently on environmental performance across the lifecycle of the project.[26]

5.82. The CATO is required to develop and maintain an Environmental Action Plan (EAP) and to publish an Annual Environmental Report (AER) setting out performance against those commitments. This includes, where relevant, matters such as emissions, resource use, biodiversity, and management of relevant gases.

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[25] For RIIO context, see New Infrastructure Stakeholder Engagement Survey (NISES) ODI-R, RIIO-3-Final-Determinations-ET.pdf p77, Appendix 1.

[26] For RIIO context, see Environmental Action Plan (EAP) and Annual Environmental Report (AER) ODI-R commitments and outputs, RIIO-3-Final-Determinations-ET.pdf, page 43.

Timely new connections incentive

5.83. This incentive seeks to promote transparency and accountability in the delivery of activities related to new connections, where these fall within the CATO's scope.

5.84. The CATO is required to publish information on its performance in facilitating connections, including adherence to relevant timescales and processes. This may include a forward-looking delivery plan and periodic performance reporting.

Pass-through costs

5.85. Some CATO costs that are unavoidable and not subject to competitive bidding or performance risk do not need to be included as part of the tender bid and are treated as Pass-through costs in the licence under Condition F43.

5.86. Costs the CATO may recover outside the TRS, via the Post-Financial Close Revenue Adjustment Term (PT_t) include the Passthrough Adjustment Terms, as set out in Condition F43, paragraph 2.

Licence Fee Cost Adjustment (LF_t)

5.87. CATOs are required to pay an annual licence fee to Ofgem. Because licence fees are set administratively and may change over time the CATO will have no control over the quantum of these charges. To avoid placing the CATO at risk for these fluctuations, the fee is passed through fully each year under Condition F43.

5.88. LF_t is the amount of licence fees actually paid by the CATO in Relevant Year (t). There is no efficiency test or determination process, and the fixed fee level is set by Ofgem.

5.89. The CATO must provide evidence of:

- Ofgem's licence fee invoice(s);
- proof of payment.

Network Rates Cost Adjustment (RB_t)

5.90. Network rates (non-domestic business rates for transmission assets) are determined by government and administered by national valuation bodies. These costs are outside the CATO's control and:

- change at statutory revaluation events; and
- can materially affect annual operating costs.

5.91. Accordingly, RB_t passes the full cost through to allowed revenue. RB_t is the level of Network Rates payments made in total by the CATO in the Relevant Year (t).

Expectations at revaluation

5.92. At the statutory Network Rates Revaluations, the licence requires the CATO to:

- apply reasonable endeavours to minimise rateable value exposure (such as providing accurate asset data and cooperating with valuation officers); and
- avoid steps that would artificially inflate rateable value.

5.93. The CATO must provide evidence of:

- rateable value statements;
- annual rates bills;
- payment confirmation; and
- any correspondence demonstrating compliance with the “reasonable endeavours” duty.

Crown Estate Lease Cost Adjustment (CEL_t)

5.94. Where a CATO requires rights over Crown Estate land (typically seabed or foreshore), the associated lease payments are a precondition for providing transmission services and are set externally by the Crown Estate. This pass through ensures these costs flow through transparently rather than forming part of TRS bids.

5.95. CEL_t is the payments the CATO makes in the Relevant Year (t), in respect of:

- annual rent charged under the Crown Estate Lease; and
- Crown Estate legal expenses relating to lease preparation, negotiation and completion.

5.96. The CATO must provide:

- a copy of the lease or relevant extract;
- invoices for rent and Crown Estate legal fees; and
- proof of payment.

Temporary Physical Disconnection Payment (TPD_t)

5.97. Under the STC and CUSC frameworks, NESO may make payments to generators for Relevant Interruptions where a transmission outage causes loss of access. Where such interruptions occur on CATO assets, the CATO may be liable for the SO’s associated compensation payments.

5.98. These liabilities are unpredictable, determined externally, and may relate to system-wide operational decisions. TPD_t therefore ensures the CATO remains financially neutral to these events.

5.99. TPD_t is the interruption payments made by NESO which are charged to the CATO under the STC during the Relevant Year (t), including associated financing costs.

5.100. As payments may be made at different times during the year, any financing or carrying costs associated with those payments are also recoverable, ensuring the CATO’s financial position is preserved.

5.101. The CATO must provide:

- The relevant NESO invoices for interruption payments;

- proof of payment; and
- The relevant NESO determination documents showing why the interruption was attributed to the CATO.

Tender Fee Cost Adjustment (TCA_t)

5.102. The Electricity (Early-Model Competitive Tenders for Onshore Transmission Licences) Regulations 2025 permit Ofgem to recover the cost of running the competitive tender process from the CATO.

5.103. TCA_t allows these charges to be passed through fairly. These costs are:

- not known at ITT or licence grant;
- determined centrally by Ofgem; and
- unrelated to the CATO's efficiency.

5.104. TCA_t reflects two components:

- Payments made by the CATO to Ofgem under the Tender Regulations; and
- Any repayments made by Ofgem to the CATO where recovered fees exceed actual tender costs.

5.105. The CATO must provide:

- Ofgem tender fee invoices;
- any statements of reconciliation issued by Ofgem;
- proof of payments or refunds.

Additional works

5.106. Pre-Financial Close Additional Works will be included in the PPWCAA as the Pre-construction Additional Works Adjustment (PAWA) and therefore flow into the CATO's BR.

5.107. Post-Financial Close Additional Works are handled via the post-PPWCA additional works term ($PPAW_t$) inside PT_t. The CATO may supply supporting evidence of costs in line with Condition F43, paragraph 6, where it can demonstrate to Ofgem this was due to a requirement (arising after the PPWCA Date) to carry out Additional Works.

5.108. Ofgem will decide on the financing treatment and whether costs incurred were efficient and economic costs. Applications are subject to the stipulated time limits, information requirements and fallback determinations, as set out in F43.

5.109. For further information see Chapter 6 (Additional Works) below.

Indexation

5.110. The indexation process in the licence refines a partially indexed TRS. It applies CPIH-based adjustments to the portion of revenue that represents inflation-sensitive costs, while leaving the remainder fixed. This ensures there is an inflation hedge and avoids exposing consumers to unnecessary inflation risk.

5.111. The CATO's BR will be partially indexed using the inflation factor for the year (IFt).

5.112. In line with the formula $IF_t = (IP \times CPIH_t/CPIH_0) + (1 - IP)$, as set out in Condition F42, paragraph 4, IP (the BR Inflation Proportion) is determined using the Financial Model.

5.113. Pre-operations inflation on project costs is handled in the Pre-construction Indexation Adjustment (PIA) and Construction Indexation Adjustment CIA, as set out in Conditions F42, paragraphs 9-13, within the PPWCAA.

Income Adjusting Event – Post-PPWCA

5.114. Certain events or circumstances not predictable at licence grant may result in increased or decreased CATO costs. The licence defines the circumstances which may be considered income adjusting events. To qualify, the event must increase or decrease the CATO's costs in the Relevant Year (t).

5.115. Ofgem will determine any Income Adjusting Event Revenue Adjustment (IAT_t), which feeds into the Post-Financial Close Revenue Adjustment Term (PT_t), as set out in Condition F43, paragraphs 2-3. Ofgem will consider mitigation, interactions with insurance or other recovery, and may direct partial adjustments, pending final determination.

5.116. The PT_t includes a mix of true pass-through cost items and other adjustments where timing or cost profiles may vary. For the defined pass-through items (LFt, RBt, CELt, TCAt), Ofgem does not expect financing treatment to be necessary, as these costs are recovered in the period in which they are incurred.

5.117. Financing effects may be relevant only where Ofgem determines that an adjustment should be recovered over multiple years, or where timing differences arise (for example, in relation to temporary physical disconnection payments). In such cases, the objective is to ensure that the CATO's financial position is, as far as reasonably practicable, unchanged by the event giving rise to the adjustment, in line with Condition F43, paragraph 32(c).

What Constitutes an Income Adjusting Event[27]

5.118. An Income Adjusting Event may arise from an event or circumstance occurring during the Relevant Year which results in a change in the costs and/or expenses incurred by the licensee, for the purposes of the Restriction of Transmission Revenue: Allowed pass-through items condition. The licensee must provide a notice to the Authority setting out the event to which the notice relates, the manner in which that event has resulted in a change in costs and/or expenses, and the associated impact on allowed revenue. The Authority will determine, following assessment of the notice and supporting evidence, whether the event or circumstance constitutes an Income Adjusting Event and the extent of any allowed adjustment.

[27] For definition, see Condition F43 Paragraph 2, (draft) CATO Licence.

5.119. An Income Adjusting Event is subject to materiality thresholds for which it submits the particulars set out in Condition F43, paragraph 25. Only cost impacts above the threshold qualify for IAE treatment.

Relationship with other mechanisms

5.120. It is important to distinguish the IAE mechanism from other parts of the regime:

- Exceptional Events (Condition F44): may provide relief from availability penalties but do not provide cost recovery.
- IAE mechanism (Condition F43): provides for revenue adjustments relating to costs and savings.

5.121. Where an event gives rise to both:

- performance impacts are addressed through the availability mechanism; and
- financial impacts are assessed separately under the IAE provisions.

5.122. This distinction reflects the different purposes of the mechanisms and avoids double recovery.

Required contents of notification to Ofgem

5.123. When submitting information to Ofgem in respect of an IEA the CATO should structure the pack so that Ofgem can undertake a timely and consistent assessment in accordance with F43. As a minimum, the IAE notice should:

- describe the event/circumstance and explain why it falls within the IAE categories;
- quantify costs incurred/saved and explain the calculation method;
- show how mitigation has been applied and why remaining costs are unavoidable;
- identify any insurance or other recoveries (claimed or expected);
- set out the proposed revenue adjustment and how it restores (so far as is reasonably practicable) the financial position as if the event had not occurred; and
- include any additional analysis the CATO considers relevant.

5.124. The CATO should avoid: (a) re-pricing baseline scope already covered by TRS/PPWCA; (b) including costs that are recoverable under other routes (i.e., contractual claims, insurance) without netting; and (c) submitting notices late.

Requests for further information

5.125. Under Condition F43, paragraph 28, if Ofgem considers the information insufficient it may request further evidence. The CATO must provide this within one month, unless Ofgem allows extra time.

5.126. Failure to provide sufficient information may affect the Ofgem's ability to determine the adjustment, in accordance with the licence provisions.

Ofgem assessment process

5.127. In determining the adjustment, Ofgem will apply the tests set out in the condition, including that the adjustment should, insofar as reasonably practicable, restore the CATO's financial position to that which would have applied absent the event. Ofgem's determination is made in accordance with Condition F43, paragraph 32, explained in summary below.

Eligibility and materiality

5.128. Ofgem will assess:

- whether an Income Adjusting Event has occurred;
- whether the materiality threshold has been met; and
- the appropriate revenue adjustment, if any.

5.129. Ofgem may also:

- take into account mitigation and efficiency;
- deduct amounts recovered through other routes; and
- make a partial determination where appropriate.

5.130. It should be noted that these matters are governed by the licence wording and are not varied by this guidance.

Avoiding double recovery

5.131. The licence requires that any adjustment be calculated net of amounts recovered through other avenues, including (but not limited to):

- insurance recoveries; and
- warranty or contractor liabilities.

Uninsurable events and deductions

5.132. Where an IAE relates to an Uninsurable Event, the adjustment is subject to the deductions specified in Condition F43, paragraph 32(c). The detailed application of these deductions is set out in the licence condition and should be followed in full.

Timing of determination and default process

5.133. The default determination provisions are set out in Condition F43, paragraph 33. In summary, where Ofgem does not make a determination within the specified period, the outcome will depend on whether additional information has been requested and whether Ofgem has indicated that the information provided is insufficient.

5.134. The precise operation of these provisions is governed by the licence and should be read directly alongside any IAE submission.

Value of the IAE Revenue Adjustment (IAT_t)

5.135. The value of the IAE adjustment for a for a Relevant Year is determined in accordance with Condition F43, paragraph 33. This may be:

- the amount determined by Ofgem;
- the amount proposed by the CATO (in specified circumstances); or
- zero.

5.136. Adjustments apply over the Relevant Year(s) determined by Ofgem.

Objective of the adjustment

5.137. Across all determinations, the guiding principle is that the adjustment should:

- reflect the costs and/or savings caused by the event; and
- restore the CATO's position insofar as reasonably practicable to what it would have been absent the event.

Revenue period

5.138. The start and end of the revenue period establish the principle that revenue should align with 'when the asset is actually available for use'. The TRS Commencement Date is therefore tied to NESO certification of operational capability and the first and last years are pro-rated to ensure the CATO is neither advantaged nor disadvantaged by partial years.

5.139. The closing-period adjustments (Residual Value, CRYAA, AHW) ensure that the end-of-life asset condition and performance are accounted for before ownership transfer. This structure ensures delivery incentives with no revenue before commissioning, predictability under a fixed 35-year term, asset condition accountability with a year-30 health check. efficient end-of-life decisions, competitive pressure beyond year 40 and financeability support through controlled refinancing mechanisms.

Start of revenue period

5.140. The start of revenue period is defined in Condition F42 as the TRS Commencement Date, which is the date NESO certifies that the system is available to operate.

5.141. The TRS Commencement Date requires:

- the asset to be energised; and
- NESO to certify that it is technically available for operational service.

5.142. TRS payment begins only when NESO issues operational certification. No revenue is paid before commissioning. The CATO therefore incurs financing costs without income until the asset is energised.

Ealy start (acceleration)

5.143. Where acceleration benefits consumers (typically through system-wide benefits or changes during PPWCA) NESO may request an accelerated plan. If Ofgem approves:

- the TRS Commencement Date may be brought forward; and
- efficient and justified acceleration costs may be included in the PPWCA, outside the cap. See Chapter 4 (PPWCA) for further details.

Late start (delay)

5.144. If commissioning is later than the Target TRS Commencement Date:

- TRS begins on the actual certification date; but
- the CATO still receives a full 35-year revenue period, unless the delay was determined by Ofgem to be attributable to the CATO.

5.145. Where delay is determined by Ofgem to be the CATO's responsibility, the 35-year revenue period is reduced by the period of delay against the Target Commencement Date with the CATO exposed to the cost of that delay. For example, if a project has a Target TRS Commencement Date of 31/12/2040 and is actually delivered on 31/12/2041, the CATO will receive a TRS for 34 years rather than 35.

Partial-Year Factors (PY_t)

5.146. The first and last years of the revenue period are pro-rated via the partial year factor (PY_t). This accounts for the shortened Commencement Relevant Year and Closing Relevant Year, which are almost always partial years, and ensures revenue reflects actual availability within those truncated years.

5.147. The calculation in the licence at Condition F42, paragraph 4(d), sets out that:

$$PY_t = D / 365.25$$

where D is the number of days in which the system is operational within that Relevant Year (t).

Residual Value (RV_t)

5.148. At the end of revenue period the Residual Value Amount (RV_t) is settled as set out under Condition F42, paragraphs 33-35:

$$RV_t = IRV + CRYAA – AHW$$

where:

IRV means initial residual value (1/8th of project capital cost at PPWCA + Post-Financial Close RVA adjustments);

CRYAA means the Closing Relevant Year Availability Adjustment. It should be noted any CRYAA figure may be negative.

AHW means Asset Health Withholding determined after year-30 asset condition assessment.

5.149. This ensures that consumers pay only for an asset in appropriate health and disincentivises deterioration.

Asset health review and Asset Health Withholding (AHW)

5.150. At the end of the revenue period, the CATO's Residual Value payment (RV_t) is adjusted to reflect the condition of the transmission assets. AHW ensures that consumers do not pay full residual value where asset condition is below the expected standard and that CATOs maintain assets appropriately throughout the licence term, in line with Condition F47 (Asset Health).

5.151. The CATO must:

- Carry out a formal Health Review of the transmission assets;
- Seek Ofgem approval for the scope and methodology must in advance; and
- Ensure the review must take place no later than five years before the end of the revenue period.

5.152. The review provides an independent, evidence-based assessment of:

- the current condition of the assets;
- the remaining useful asset life; and
- any remedial works required to bring the asset to an appropriate standard for transfer or continued use.

5.153. The CATO is required to undertake further works if directed by Ofgem following the review.

5.154. AHW is determined, then applied within the RV_t calculation outlined at 5.147, through the following process:

1) The CATO submits its completed health review, alongside supporting evidence, to Ofgem.

2) Ofgem assesses:

- the findings of the review;
- the CATO's maintenance strategy over the licence period; and
- whether the asset condition meets the expected standard for transfer or continued service.

3) If the asset is not in acceptable condition, Ofgem identifies:

- the scope of remedial works required, or
- the extent of condition shortfall.

4) Ofgem determines a monetary value for AHW representing:

- The cost of required remedial works, and/or
- A penalty for deterioration below expected condition.

End-of-Life Decision (Year 30 Review)

5.154. At year 30 Ofgem intends to conduct a dual review. This will consider (i) whether the system still needs the assets beyond year 35 (based on the Centralised Strategic Network Plan (CSNP) and Ofgem's network need assessment), and (ii) whether the assets are in acceptable condition (based on an independent asset health assessment).

5.155. Three primary decision options exist following the review: decommissioning; extension; retendering. CSNP outputs will inform Ofgem's choice between the three options, with a CATO of Last Resort mechanism available if necessary.

Option A: Decommissioning (Need ends ≈ Year 35)

5.156. If the CSNP assessment and Ofgem determination shows the need ends around the end of the revenue term:

- The asset is decommissioned; and
- The CATO receives RV_t (funded through TNUoS)

Option B: Extension to ~Year 40 (Short period)

5.157. If the determination finds a defined short additional period of network need exists:

- the CATO receives RV_t at year 35;
- the CATO then receives operation and maintenance-only (O&M) payments for remaining years; and
- no new financing is required.

5.158. Under 'Option B' the O&M margin is negotiated at the time, not fixed in advanced.

Option C: Retendering (Need Continues > ~40 Years)

5.159. If the determination finds a long-term system need beyond year 40:

- Ofgem runs a new competitive tender;
- asset ownership and operation transfers to the winning bidder; and
- the incumbent CATO receives RV_t minus Asset Health Withholding (AHW) deductions.

Option D: CATO of Last Resort

5.160. In circumstances where retendering fails or is not feasible, Ofgem can apply the CATO of Last Resort mechanism to ensure continuity of service, in accordance with Condition F50.

Refinancing within the Revenue Period

5.161. Ofgem recognises that a full 35-year debt finance tenor may not be available at reasonable market rates. Ofgem allows CATOs to include an Agreed Refinancing, provided that:

- no viable financing structure exists without it; or
- the refinancing version reduces TRS NPV materially.

5.162. The principles behind a CATO's Agreed Refinancing option are that:

- Any refinancing impacts (both positive and negative) are fully passed through to consumers;
- CATOs still bear the performance risk;
- Refinancing must follow a debt competition overseen by Ofgem;
- If refinancing raises excess capital, a mechanism must be in place to return value to consumers.

5.163. For full details please refer to Chapter 7 (Agreed Refinancing).

Annual calculation of allowed revenue during the Revenue Period

5.164. The annual allowed revenue includes the following elements which operate consistently across the full 35-year term, under Condition F42, paragraph 4:

- the base revenue adjusted for inflation, partial year and availability; ($BR \times IF_t \times PY_t \times A_t$)
- pass-through adjustments (PT_t);
- revenue correction factor for prior-year over-/under-recovery (K_t); and
- residual value (μt determines whether it falls in the final or following year) ($\mu t \times RV_t$)

Reporting requirements

5.165. The reporting requirements in the licence embed the principle that a transparent and auditable record of availability, outages and cost events underpin a payment mechanism that is formula-driven. The licence conditions define these duties precisely: setting notification timescales, evidence requirements, and model-submission rules. Ofgem requires these data as standard assurance procedures in applying the TRS adjustments consistently and fairly.

5.166. PT_t/IAE and other reopeners: The CATO must submit notices, evidence and Financial Model runs as required in accordance with Condition F43, paragraph 2, to allow Ofgem to determine the decommissioning cost adjustment term (DC_t), the income adjusting event revenue adjustment term (IAT_t), the post-PPWCA additional works term ($PPAW_t$) and all other PT_t terms within three months of the respective period-end/event.

Revenue outturn safeguards (AR_t vs $CATO_t$)

5.167. In addition to the mechanistic reconciliation provided by the revenue correction factor (K_t), an outcomes-based safeguard, as set out in Condition F45, paragraphs 2-4, where a CATO's Regulated Transmission Revenue (AR_t) materially diverges from its Allowed Transmission Owner Revenue ($CATO_t$).

5.168. The safeguard provisions act as a regulatory backstop, rather than a routine adjustment mechanism in these circumstances:

- AR_t falls below 97% of CATOt, the CATO must provide an explanation to Ofgem;
- AR_t exceeds 103% of CATOt, the CATO must both explain the outturn and demonstrate that next Relevant Year charges will not result in continued over-recovery; and
- AR_t exceeds 104% of CATOt for two consecutive years, Ofgem has the power to require the CATO to adjust its future charges to prevent further over-recovery.

5.169. These are prospective in their effect, do not result in retrospective repricing and operate at Ofgem's discretion to address persistent or material divergence rather than normal year-to-year variance.

5.170. Normal revenue variance is reconciled via the revenue correction factor (Kt); the $AR_t/CATO_t$ thresholds in Condition F45 act as an additional safeguard where divergence is persistent or material.

6. Additional Works

Section summary

This section provides information to CATOs relating to their Additional Works obligations and the processes to follow when incorporating NESO-determined network requirements into their asset base in accordance with Condition F36 (Obligations in relation to offers for connection etc.)

Introduction

6.1. As the electricity transmission network expands due to decarbonisation of energy in support of the government's Net Zero obligations, it is likely that a CATO will have to undertake Additional Works on its assets over time, either to increase network capability or to facilitate new network customer connections.

6.2. Additional Works are additional network requirements on a CATO's network assets that have been identified by NESO as required to operate an integrated transmission network. The purpose of this guidance is to provide clarity to CATOs around its obligations in delivering Additional Works, detail funding options to deliver Additional Works and explain the regulatory process a CATO must follow when incorporating Additional Works into the design of its network.

6.3. There are likely to be three main drivers for Additional Works:[28]

i. User connections – providing offers to design, build and operate user connections to the CATO system, with detail in STC Section D (Part 2)

ii. Wider network user connection impact – modifying a CATO asset as a result of a user connection elsewhere on the NETS, with the CATO considered an Affected Transmission Owner Construction Offer to a user under STCP 18.1 (as referenced by NESO).

iii. Transmission Investment Plan – modifying a CATO asset to support development of the wider network following changes in another TO's Transmission Investment Plan.

6.4. The CATO licence requires CATOs to respond to certain connection/modification and Network Option Assessment (NOA) related requests by making offers or providing information submissions in accordance with Condition F36 (additional works) and the STC.

6.5. Revenue treatment for Additional Works is split between: (a) pre-financial close Additional Works that may be taken into account in the PPWCA (see PAWA within Condition F42, and (b) post-PPWCA Additional Works that may be

[28] Condition F36, connection/modification notification and agreement provisions

considered through the post-financial close adjustment framework (see PPAWt) within Condition F43.

Design adjustment process (pre-commissioning window, design freeze, post-commissioning)

6.6. Where Additional Works are identified early during the preliminary works phase the expectation is that the CATO adjusts its project design to incorporate them and the cost of these works is assessed as part of the PPWCA,[29] with the CATO's TRS adjusted accordingly[30] ahead of the TRS Commencement Date. Where Additional Works are identified very late in the preliminary works stage, after commissioning, or where the delivery of the Additional Works may impact overall project delivery timelines, these works will be assessed and funded as explained below and in accordance with.

6.7. The design adjustment process is phased as follows:

- During Preliminary Works there may be a limited window in which the CATO can incorporate justified Additional Works without materially delaying delivery.
- Before the PPWCA point and continuing through construction and commissioning, a design freeze will be in place. During the design freeze the CATO should still provide the required offers and information submissions, but material changes to the commissioned asset will normally be delivered after commissioning unless otherwise determined.
- After commissioning the obligation to carry out Additional Works resumes that can be delivered using the appropriate operational arrangements and funding route.

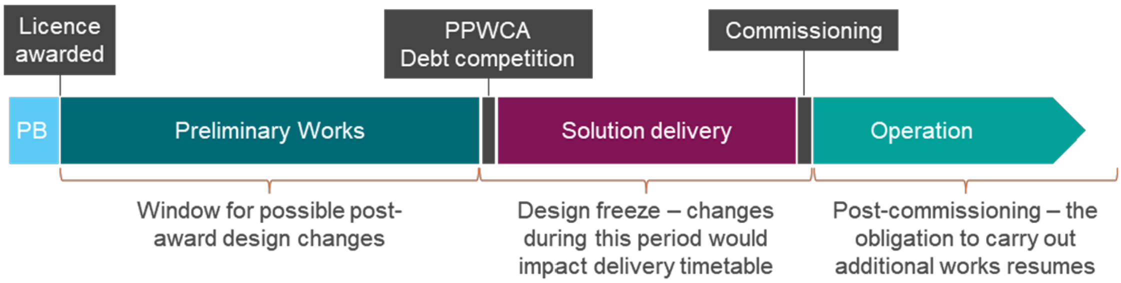

Figure 6.1: Design adjustment process (reproduced from EC-I Update, published February 2024)

[29] see Condition F46, application for PPWCA Adjustment and requirement to include changes in Project Costs relating to Pre-construction Additional Works, CATO Licence.

[30] see Condition 42 Restriction of Transmission Revenue from Transmission Owner Services, PPWCA Adjustment (PPWCAA) including Pre-construction Additional Works Adjustment (PAWA), CATO Licence.

Process overview and delivery and funding approach for CATOs in the context of Additional Works

6.8. The CATO should comply with the following process once receiving Additional Works request from NESO[31] and select an appropriate delivery and funding approach within the relevant time periods specified for this purpose in the STC, as per paragraph 4 of Condition F36 (Additional Works: obligations in relation to offers for connections etc).

Step 0: received and recorded

6.9. The CATO should record the request/notification received under the relevant industry-code processes, identify the driver (for example, a connection request, affected works or wider network investment planning), and confirm that the request relates to works on, or associated with, the CATO's transmission system.

Step 1: classification and scope boundary check

6.10. The CATO should confirm whether the request is "Additional Works" (outside the tendered scope of its original project) or whether it is routine design development or a defect rectification. The CATO should also identify whether any costs are borne by a connecting party as those costs do not count towards the cumulative Additional Works value.[32]

Step 2: STC route and time-period confirmed

6.11. The CATO should identify the applicable STC procedure route and the required output (e.g., an offer or an information submission). The CATO should make the submission within the applicable time-period. NESO will administer the process and coordinate with relevant STC parties as required.[33]

Step 3: delivery timing decision taken and documented

6.12. The CATO should assess whether incorporating the Additional Works before commissioning its original project would materially delay delivery (including additional consenting and construction time) or create material delivery risk. The CATO should then decide whether to incorporate the Additional Works pre-commissioning (within the pre-freeze window) or plan delivery post-commissioning and should document the reasoning.

Step 4: pricing approach selected and evidenced

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[31] Condition F36, CATO Licence.

[32] The cumulative Additional Works value is intended to capture the costs of Additional Works investment that are borne by the CATO. Where elements of the costs are paid for by the connecting party through the relevant connections process, those elements do not count towards the CATO's cumulative additional works value.

[33] Condition F36, CATO Licence.

6.13. The CATO should develop a cost estimate using the most appropriate method. Where Additional Works are comparable to tendered items, the CATO should use its cost book with indexation as the default where applicable, with any cost deviations to be explained and justified by the CATO. Where Additional Works fall outside that scope or where market pricing needs to be evidenced, the CATO should run a Design & Build (D&B) tender with appropriate governance and evidence. Further detail on pricing, indexation and evidencing requirements is set out in para 6.17, and on governance and funding route thresholds in para 6.18.

Step 5: funding route selected and submission pack prepared

6.14. The CATO should update the cumulative tracker and identify the relevant cost band (0–20%, 20–50%, or >50% of the original project capex, see below). The CATO should then select a funding route and prepare the required submissions and evidence pack to Ofgem.[34]

Step 6: oversight, determinations and (if needed) dispute resolution

6.15. Ofgem will review and determine matters where required,[35] including whether the proposed approach delivers value for money and protects consumers. Where Ofgem disagrees with a CATO's assessment that Additional Works would compromise or delay delivery, Ofgem may require the Additional Works to be undertaken, subject to the applicable dispute routes.

Step 7: implementation, reporting and close-out

6.16. The CATO should deliver the Additional Works (or procure delivery), update the tracker and retain a complete evidence trail including correspondence, calculations, procurement records, approvals and determinations.

Pricing approach (cost book, indexation, design and build (D&B) tender)

6.17. Pricing should be proportionate to the nature of the Additional Works and evidenced in a way that supports value for money. Where works are comparable to tendered items, pricing should be based on the CATO's cost book with indexation where applicable. Where works fall outside the cost book, or where cost book pricing would not reflect market conditions, the CATO should run a D&B tender with appropriate governance and evidence.

6.18. Where a D&B tender is used, the minimum governance expectations include the following:

[34] see Condition F46, PPWCA Submission requirements where applicable, and Condition F42 Restriction of Transmission Revenue from Transmission Owner Services 'Approval' provisions for submissions to the Authority, (draft) CATO Licence.

[35] see Condition F42 'Approval' provisions, (draft) CATO Licence.

- CATO should set out a clear technical specification and scope definition, including interfaces and acceptance criteria
- CATO should run a competitive tender process and use evaluation criteria that demonstrate market pricing and value for money
- CATO should retain a complete evidence pack that includes the procurement strategy, tender documents, bids received, evaluation record, award recommendation and final contract price

Funding route governance by cost band (0-20% 20-50%, >50%)

6.19. Funding arrangements operate by reference to the cumulative value of additional works, expressed as a percentage of the original project capex (not indexed), and capture costs borne by the CATO:

Band (cumulative vs original capex)	Funding routes	Core governance / approvals	Key evidence to retain
0–20%	The CATO may self-finance within this band and will receive a commensurate TRS uplift.	Ofgem may assess costs where required to ensure they are economic and efficient. Where additional debt is required, the CATO should evidence competitive pricing in line with the applicable framework.	The CATO should retain the cost build-up, financing approach, model outputs supporting any TRS uplift, and tracker updates.
>20% to 50%	The CATO may either self-finance with a TRS uplift or use a pass-through / upfront payment route with no return.	Where pass-through is used, the CATO should run a D&B tender with appropriate governance and NESO oversight so the price reflects market pricing.	The CATO should retain the route rationale, procurement evidence, payment profile and tracker updates.
>50%	The CATO may self-finance, use pass-through, or propose a bespoke arrangement agreed with	Ofgem will determine the appropriate arrangement on a case-by-case basis and may require additional consumer-protection analysis given the	The CATO should retain an options appraisal, consumer impact analysis (including intergenerational fairness

	Ofgem.[36] Where eligible, the works may be considered for a separate Early Competition tender.	scale and bill impacts.	considerations where relevant), governance plan, and tracker updates.

Table 2: Funding route governance by cost band

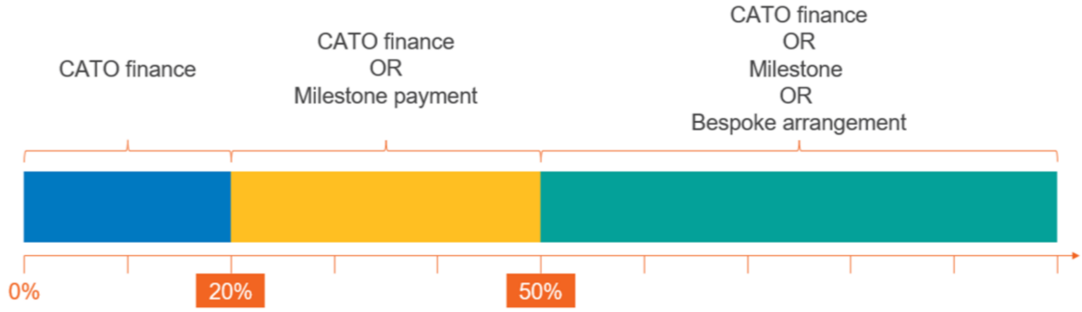

Figure 6.2: Cumulative value of Additional Works (reproduced from EC-I Update, published February 2024)

Ofgem determinations, discretion and consumer protection considerations

6.20. Key Ofgem decision points typically arise where one or more of the following applies:

- the CATO considers that incorporating the Additional Works pre-commissioning would compromise or delay delivery and provides a justification, and Ofgem considers a different approach is required
- the pricing and delivery route requires independent assurance to determine that the proposal delivers maximum value and that costs are economic and efficient
- a bespoke funding arrangement is proposed, particularly where the cumulative value exceeds 50% of the original project capex

6.21. This section describes the typical steps Ofgem will follow when determining (i) the appropriate funding route for Additional Works and / or (ii) whether submitted costs are economic and efficient. Ofgem will apply the same cost assessment techniques and toolkit as used for incumbent Transmission Owners under price control arrangements.

[36] Such as a ‘side’ Regulated Asset Base (“RAB”) funding arrangement, a separate revenue stream or an entirely different model, see the Design and Design Changes guidance for an overview.

Pre-engagement and submission planning

6.22. The CATO should engage early with Ofgem where an Additional Works case is likely to require a funding route determination, a D&B tender, or a bespoke arrangement, so that information requirements and expected outputs are clear before formal submission.

6.23. Where possible, the CATO should provide all relevant information to Ofgem as part of a single submission rather than staggering the provisions of information. Where a staged approach is preferred by the CATO, it should propose and explain the intended process to Ofgem in advance and seek agreement before submitting any information.

6.24. The CATO should ensure that the submissions are complete, navigable and supported by the underlying evidence referred to in the narrative, recognising that Ofgem's ability to decide efficiently depends on the quality and clarity of submissions and responses

Initial completeness review

6.25. On receipt of a submission pack, Ofgem will undertake an initial review to determine whether the submission contains the information needed to begin assessment.

6.26. Where key information is missing, Ofgem may ask that the CATO provide additional information and may defer substantive assessment until the submission is complete.

Clarification questions and technical input

6.27. Once a submission is sufficiently complete, Ofgem may run one or more rounds of clarification questions (referred to as Supplementary Questions or "SQs") to ensure there is a clear and complete basis for assessment. The purpose of SQs is clarification and CATOs should not treat the SQ process as a substitute for a robust initial submission.

6.28. Ofgem may seek technical and commercial input from NESO and/or advisers where relevant, e.g. to confirm continued alignment to the tendered requirements, identify potential efficiencies, or test whether a proposed procurement approach is likely to deliver a market-reflective price.

The assessment framework (route choice + economic and efficient costs)

6.29. Ofgem's assessment will consider the following questions, in the round:

- **Eligibility and classification**: is the request properly categorised as Additional Works (and are any elements funded by a connecting party excluded from the cumulative value calculation)?
- **Route determination**: given the cumulative band position, is the proposed route (self-finance / TRS uplift, pass-through, or bespoke arrangement) consistent with the framework and justified by the evidence provided?

- **Cost assessment**: are the proposed costs economic and efficient, supported by bid-consistent rates where applicable, or by robust market evidence where bid rates do not exist? Where comparable and robust data is available that may be used to determine an efficient level of costs, Ofgem may benchmark cost elements or use other comparative analysis as an input to its assessment. Benchmarking is used to guide the assessment and identify areas for further scrutiny - where costs differ from benchmarks, CATOs should explain and evidence to Ofgem the project-specific drivers behind the difference.
- **Procurement and value for money**: where a D&B tender is used, does the evidence demonstrate a competitive process and market-reflective pricing?
- **Risk, timing and consumer protection**: does the approach protect timely delivery and consumer outcomes (including bill profile considerations where pass-through is proposed) while remaining financeable and deliverable?

Draft determination, representations and final decision

6.30. For matters submitted for Approval under Condition F42 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services), the “Approval” provisions in that condition provide that the Authority may approve the matter as submitted, approve the matter with changes made by the licensee after discussion with the Authority, or substitute the Authority’s determination (consistent with the relevant condition). For the PPWCA stage, Condition F46 obliges the licensee to make an application for the PPWCA Adjustment and specifies required content.

6.31. Where the decision is implemented through an Ofgem direction or other formal regulatory instrument, Ofgem will follow the process set out in the licence.

6.32. Where a decision requires a statutory licence modification under section 11A of the Electricity Act 1989, Ofgem will follow the statutory process. Alongside any modification decision Ofgem will set out any consequential implementation steps (e.g., how the allowed amounts are recorded, how the TRS is adjusted where relevant, and any reporting expectations)

Outputs of the determination process (what the CATO should expect)

6.33. Upon completion of its assessment, Ofgem will provide to the CATO:

- A written decision or determination that records the funding route decision (where required), Ofgem’s assessment of economic and efficient costs, and any conditions or required follow-up actions;
- Where relevant, a clear statement of what evidence Ofgem relied upon (including any procurement evidence, benchmarking inputs, or technical assurance) and how it affected the decision; and
- Where relevant, a record of how the decision interacts with other mechanisms, including PPWCA (for pre-PPWCA commitment cases) and post-commissioning funding routes.

Reporting, record-keeping and cumulative tracker

6.34. The CATO should maintain a cumulative tracker of Additional Works and an evidence trail, including key correspondence, assessments, cost build-ups, procurement documents, approvals and determinations.

6.35. The tracker should distinguish between costs borne by the CATO that count towards the cumulative value and any costs recovered directly from connecting parties that do not count towards the cumulative value.

6.36. A cumulative tracker template is included as Appendix 3 to the CATO Guidance.

Submissions and minimum evidence requirements

6.37. CATOs should maintain an auditable case file for each Additional Works request. The case file should be sufficient for an independent reviewer to understand the trigger, the decision pathway, the pricing and funding route, and any approvals or determinations.

6.38. Information submitted to Ofgem in respect of Additional Works requests should include the following information:

Additional Works Notice (AWN) – minimum content

6.39. The CATO AWN submitted to Ofgem should:

- describe the trigger, the driver type, and the STC route and time period relied on, including key dates and references;
- explain why the Additional Works are outside the originally tendered scope;
- set out its delivery timing assessment, including whether pre-commissioning incorporation is feasible and, where it is not, the consent and programme impacts;
- include a cost estimate and explain the pricing approach, including whether a D&B tender will be run;
- state the cumulative tracker position and cost band, and justify the proposed funding route; and
- summarise programme and interface impacts, key risks and proposed mitigations.

Funding Route Election Pack - minimum content

6.40. The CATO should summarise the options considered (self-finance, pass-through, and bespoke where relevant) and explain the financeability and consumer impact considerations.

6.41. Where a D&B tender is proposed, the CATO should provide the tender governance plan, including scope / specification, competition plan, evaluation criteria and oversight checkpoints.

6.42. Where pass-through is proposed, the CATO should detail the cost and expenditure profile so that Ofgem can consider bill impact implications and, if relevant, address intergenerational fairness considerations;

6.43. Where self-finance is proposed, the CATO should explain the intended approach to updating the TRS in line with the applicable framework.

Indicative timeline checkpoints

6.44. Binding time periods for offers and information submissions are set by the STC and the applicable STC procedures. This guidance does not override those time periods.

6.45. As internal governance checkpoints, the CATO should escalate promptly where a request: may affect delivery of the tendered solution; where a D&B tender is required; where a funding threshold is being approached; or where a bespoke arrangement is likely to be needed.

Worked examples – (low / medium / high value)

Low value example (within 0–20%)

- A connection-driven modification requires incremental works that are compatible with the tendered cost book
- the CATO prices the works using the cost book with indexation where applicable and self-finances within the 0–20% band, with a commensurate TRS uplift where the framework provides for it
- the CATO documents why pre-commissioning incorporation does not create material delay risk and updates the tracker and evidence file

Medium value example (20–50%, funding route choice)

- Multiple connection requests in a period create a clustered reinforcement requirement
- the CATO considers whether batching through a periodic window supports an efficient outcome and whether pass-through is preferable to manage financeability risk
- where pass-through is selected, the CATO runs a D&B tender with appropriate governance and evidence, and retains records to demonstrate market pricing

High value example (>50%, bespoke / separate tender consideration)

- A major network planning change requires substantial additional investment that is comparable in scale to a new project
- the CATO assesses whether the works meet the criteria for a separate tender; where they do not, the CATO develops a bespoke funding proposal that addresses delivery risk, financeability and consumer bill impacts
- Ofgem determines the appropriate approach on a case-by-case basis and may require additional evidence to protect consumers and maintain value for money

7. Agreed Refinancing

Section summary

Agreed Refinancing is a refinancing of a CATO's debt (which Ofgem must approve) under Part C of Condition F48 (Refinancing) of the CATO licence where, at the initial Debt Funding Competition and subsequent Financial Close, there is a misalignment between the Revenue Period and the tenor(s) available in the debt market. An Agreed Refinancing may relate to one or more debt facilities with different maturities and, as a result, there may be more than one refinancing point during the Revenue Period. This section talks through the mechanism as envisaged for CATOs.

Introduction

7.1. In order to secure more beneficial financing terms and lower the cost of delivering and operating network assets over a CATO's 35-year Revenue Period there may be a requirement for a CATO to refinance at some point during the Revenue Period.

7.2. In our 2025 decision and updated policy position on the onshore Early Competition commercial framework,[37] we note the potential inconsistency between the tenor of commercially available debt and the 35-year Revenue Period. This guidance document sets out Ofgem's approach on debt refinancing for CATOs where, at the initial Debt Funding Competition and subsequent Financial Close, there is a misalignment between the Revenue Period and debt tenor.

7.3. This guidance document should be read alongside Condition F48 (Refinancing) of the CATO licence and is aimed at both prospective bidders who intend to enter an Onshore Transmission Tender Exercise[38] and successful licensed CATOs considering their financing strategy.

Securing finance

7.4. At Financial Close, potential investors will look to lock in debt that fully amortises within the Revenue Period, avoiding the risk to their forecast internal rate of return (IRR) from an assumed refinancing. Furthermore, to ensure intergenerational fairness, it is essential to spread the repayment of construction finance over the asset's life. However, requiring investors to put in place debt with a construction plus 35-year (minus any tail required by the market) tenor may limit liquidity and increase the CATO's cost of debt.

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[37] Decision and updated policy position on the onshore electricity transmission Early Competition commercial framework | Ofgem, ofgem.gov.uk.

[38] As defined in Regulation 2, The Electricity (Early-Model Competitive Tenders for Onshore Transmission Licences) Regulations 2025.

7.5. Matching a debt tenor with a lengthy Revenue Period may limit financing options and result in poor value for money for consumers.

7.6. In order to alleviate this concern, a CATO will be allowed an Agreed Refinancing (separate to the standard refinancing provisions) of its debt subject to Ofgem agreement under a regulatory oversight mechanism for implementing such refinancing.

7.7. An Agreed Refinancing would not be subject to the gain share provisions applied to other refinancings, and any positive or negative impact of an Agreed Refinancing will be fully allocated to the consumer.

7.8. If an Agreed Refinancing is put in place, we may restrict the use of any other refinancing provisions in the licence. There is a risk that, in good market conditions, the CATO looks to trigger a standard refinancing just ahead of an Agreed Refinancing to capture some of the upside. Once an Agreed Refinancing has occurred, the standard refinancing provisions will be reinstated.

7.9. Our primary goal is to ensure a refinancing process that is robust, fair and protects customers from poor operational performance by the CATO.

Financing / refinancing process

Step 1: Initial DFC

7.10. Ofgem may agree to an Agreed Refinancing if the market feedback during the initial Debt Funding Competition (DFC) indicates that:

- there is no credible financing option which does not include a refinancing; or
- the Net Present Value (NPV) of the Tender Revenue Stream (TRS) calculated using a financing option with refinancing (see assumptions for the post-refinancing period below) is significantly lower than without it.

7.11. In forming this view, Ofgem will consider the overall financing package and the extent to which an Agreed Refinancing is achievable, including the price of debt, the amount of debt, the type and number of lenders, the tenor(s) of the debt, and (where relevant) the amount and tenor of the associated swaps.

7.12. Under an Agreed Refinancing, as part of our decision on whether to agree an Agreed Refinancing at the initial DFC, Ofgem may consider whether the financing structure should assume gearing below the maximum gearing available in the market at that point in time (subject to there being sufficient equity committed at the time of the tender). While this would be expected to increase the TRS, it would reduce the risk of insufficient funds to repay outstanding debt at the refinancing point.

7.13. To note, any reduction in gearing below that on offer from the market will naturally reduce the forecast gains from providing for a refinancing. This would be factored into the analysis when deciding whether to allow an Agreed Refinancing or not. The analysis, considering whether the project is still NPV when reducing gearing, will also help in determining by how much to reduce initial gearing (if any).

7.14. The tenor(s) of the initial debt will be set on a case-by-case basis. A CATO may raise more than one debt facility with different maturities, and there may therefore be more than one refinancing point during the Revenue Period. Refinancing (including any refinancing ahead of a scheduled maturity) will depend on the terms of the debt in the initial financing, for example whether there are any break clauses or margin step-ups included in the debt terms. Ofgem may ask the CATO to consider whether the initial financing terms provide appropriate flexibility to support an Agreed Refinancing when required.

Step 2: Initial Financial Close

7.15. At the initial Financial Close, the CATO's Financial Model will be re-solved to the Bid Equity IRR, assuming initial debt terms continue into the refinancing period, with debt fully amortised one year before the end of the Revenue Period.

7.16. At this point, 're-solving' the model means:

- changing model inputs to reflect actual parameters of initial financing, including gearing, debt drawdown profile, interest rate, any applicable fees and commissions;
- modifying the repayment schedule as per above, reflecting an assumed extension in annual debt repayments instead of the scheduled bullet repayment at the target refinancing date; and
- changing the TRS so that model equity IRR equals the Bid Equity IRR, while maintaining all relevant credit ratios at the level required by the lenders.

Interest rate swaps (and, where proposed, inflation swaps) will be implemented for the tenor of the debt financing, based on the Financial Model amortisation schedule, unless directed otherwise by Ofgem. Where inflation swaps are proposed, the CATO should set out the proposed scope and tenor of those hedges in the Financial Model and supporting information for Ofgem's consideration.

Re-financing process

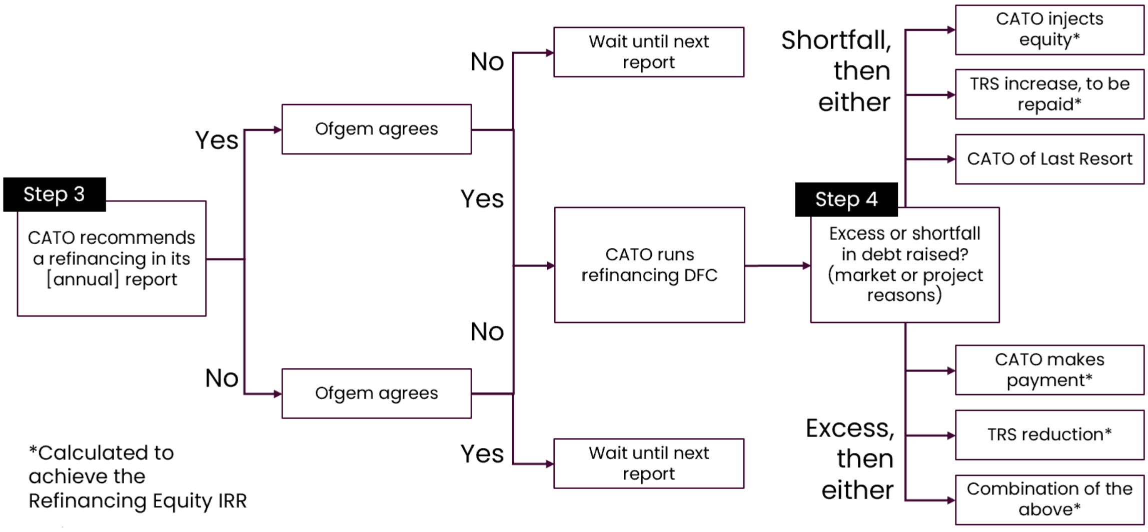

Figure 1: Ofgem decision making process during Steps 3 and 4

Step 3: Preparation for refinancing

7.17. Ofgem will place an annual reporting obligation on the CATO through F14 (Regulatory Instructions and Guidance), starting at / around the mid-point of the initial debt tenor, to consider the current debt markets and the prospects for refinancing, taking into account hedging and any associated hedging costs. Where the CATO has more than one debt facility with different maturities, the reporting should cover each relevant maturity and any associated refinancing point(s). Ofgem will review the report and instruct the CATO to either proceed or not with an Agreed Refinancing.

7.18. As part of this review, we will take into account the views of relevant stakeholders. We may also draw on NESO's support (due to its role in supervising the initial DFC as the Delivery Body) and appoint an Independent Technical / Financial Adviser with specialised PFI/PPP experience to provide assurance for the CATO reporting obligation and the refinancing DFC process.

7.19. Where the CATO considers, based on its annual refinancing reporting and supporting market evidence, that timing is appropriate to proceed with an Agreed Refinancing, it should submit an Agreed Refinancing Proposal under Condition F48 Part C. Ofgem will assess that proposal and decide whether to approve the refinancing DFC, including any requirements for the scope, timing, conduct or oversight.

7.20. Where Ofgem issues an Agreed Refinancing Determination authorising the CATO to proceed, the CATO must conduct a refinancing DFC to establish the terms of refinanced debt, aligning with initial DFC principles to ensure competitive and attractive refinancing terms. Ofgem will oversee the refinancing DFC, consistent with the initial DFC oversight approach.

7.21. Prior to the refinancing DFC, the CATO must update the Financial Model using actuals and latest forecasts to establish the current forecast IRR (the Refinancing Equity IRR).

7.22. The Refinancing Equity IRR should reflect any project operational performance issues, such as low availability or high operating expenses, and provide the best estimate of actual equity IRR that investors could expect in the project if there was no refinancing.

7.23. This guidance does not seek to address every potential driver of refinancing outcomes (for example, changes in ownership or sponsor circumstances) beyond how these factors may be reflected in market terms and the Refinancing Equity IRR.

Step 4: Following the refinancing DFC

7.24. An extension of the maturity of an existing debt facility (with or without a change in margin) is not, of itself, an Agreed Refinancing. The CATO should not assume that an extension will be acceptable as an alternative to pursuing an Agreed Refinancing where refinancing is required to address the misalignment between the Revenue Period and debt tenor. Where an extension is proposed, the CATO should set this out in its reporting to Ofgem and Ofgem will consider the proposal as part of its oversight under the licence.

7.25. The refinancing DFC may, through changes in the market or the performance of the project, generate more or less funds than are required to repay the initial debt.

7.26. In reviewing the refinancing DFC outcomes, Ofgem will consider the trade-offs across the terms offered (including price, amount of debt, type and number of lenders and tenor(s)) and how these interact with the project's forecast cashflows and credit metrics at the refinancing point(s).

7.27. If the DFC raises more funds than needed to repay the initial debt, Ofgem may:

- ask the CATO to only draw down amounts required to repay the debt;
- ask the CATO to pay the balance equal to the NPV of the additional gearing value;
- reduce the TRS to reflect the positive NPV effect of the additional gearing; or
- use a combination of the above, using the Refinancing Equity IRR for NPV calculation.

7.28. If the DFC raises insufficient funds than are needed to repay the initial debt, Ofgem may:

- ask the CATO to inject more equity at the Refinancing Equity IRR; or
- increase the TRS to support a larger debt amount, subject to a claw-back ahead of further equity distributions – ensuring the CATO gets no more than the Refinancing Equity IRR; or
- enter into CATO default termination.

7.29. In considering these options, Ofgem will also take into account any proposal to extend the maturity of the existing facility and will decide whether to agree such an approach under the licence; the CATO should not assume that an extension will be accepted where the project is unable to refinance on the basis anticipated for an Agreed Refinancing.

7.30. The CATO will update the Financial Model for terms established by the DFC and resolve to the Refinancing Equity IRR by adjusting the TRS for the remaining (post-refinancing) period. At this point, re-solving the model means[39]:

- changing model inputs to reflect actual parameters of refinancing, including interest rate, any applicable fees and commissions, repayment schedule, etc.
- changing the TRS so that the model equity IRR equals the Refinancing Equity IRR, while maintaining all relevant credit ratios at the level required by the lenders

7.31. Unlike a standard refinancing, an Agreed Refinancing will not share any upside with the CATO. The CATO has an incentive to achieve a successful refinancing given the potential need to inject new equity or loss to a CATO of Last Resort.

Worked Examples

7.32. These worked examples are illustrative only. They do not cover all possible circumstances and outcomes, and there are many other possible scenarios. They are provided to support interpretation of the guidance rather than to set additional requirements beyond the licence.

Scenario 1 – Debt Market Volatility

7.33. Market evidence may include publicly available information on financings in the public and private debt markets, with particular reference to any energy sector comparables.

7.34. As part of the initial DFC, Ofgem approved an Agreed Refinancing. The original debt was put in place with a balloon repayment in year 15 of operations, with no penalties from lenders for a refinancing from year 10 onwards. Interest rate swaps were implemented in line with the tenor of the debt financing based on the Financial Model amortisation schedule.

7.35. In year 10, the CATO produces its first annual refinancing report. It concludes that in current markets, refinancing into a fully amortising facility would be significantly more expensive (i.e. margins are higher) than has historically been the case due to poor macro-economic conditions. It recommends against a refinancing at this point.

[39] Ensure alignment with Financial Model guidance, especially the proposed term sheet.

7.36. In year 11, the annual refinancing report concludes that the conditions in year 10 persist but have eased. It recommends against a refinancing at this point.

7.37. In year 12, the annual refinancing report concludes that, again, conditions have improved but margins remain higher than at the initial FC. On balance, it recommends a refinancing at this point, as the higher margins may persist or even rise again, and the opportunities to refinance are diminishing. Ofgem agrees.

7.38. The project is performing well, and the Refinancing Equity IRR is 50bps above the Initial Equity IRR.

7.39. Following the refinancing DFC, debt is secured but margins are higher than those at the time of the initial DFC. With gearing maximised at the time of the initial DFC, there is no headroom, and the amount of debt raised is insufficient to fully repay the initial debt.

7.40. The CATO investors agree to inject additional equity at the Refinancing Equity IRR to bridge the gap.

Scenario 2 – Favourable Market Conditions

7.41. As part of the initial DFC, Ofgem approved an Agreed Refinancing. The original debt was put in place with a balloon repayment in year 15 of operations, with no penalties for a refinancing from year 10 onwards. Interest rate swaps were implemented in line with the debt tenor based on the Financial Model amortisation schedule.

7.42. In year 10, the CATO produces its first annual refinancing report. It concludes that market conditions are stable and refinancing opportunities are available, but margins are broadly in line with those at initial Financial Close. It recommends delaying refinancing to explore potential for more favourable terms.

7.43. In year 11, the annual refinancing report concludes that market conditions have improved, with increased lender appetite and lower margins available for comparable projects. It recommends proceeding with a refinancing. Ofgem agrees.

7.44. The project is performing in line with expectations, and the Refinancing Equity IRR is broadly equal to the Initial Equity IRR.

7.45. Following the refinancing DFC, strong market conditions and competition between lenders result in lower margins and improved terms compared to the initial financing. This allows the CATO to raise sufficient debt to fully repay the initial debt.

7.46. As a result of the improved financing terms, the refinancing leads to a positive NPV outcome for consumers. Ofgem determines that this benefit should be passed through via an appropriate reduction in the TRS for the remaining Revenue Period.

8. CATO of Last Resort

Section summary

This section provides information regarding the processes and procedures to be followed in the event Ofgem are required to appoint a CATO of Last Resort following revocation of a CATO's licence.

Introduction

8.1. While we expect the CATOs we licence to design, deliver and operate their networks to a very high standard and ensure reliability of service to network users, there may be circumstances that lead to the revocation of a CATO's licence and the need to appoint an alternative transmission owner to either (i) deliver a project if revocation occurs prior to commissioning or (ii) to operate and maintain the network assets post-commissioning. This guidance describes the process steps Ofgem expects to follow where a CATO of Last Resort (CATO OLR) appointment is being considered, and the associated information, transfer and implementation activities required to maintain continuity of delivery.

8.2. A CATO OLR is a transmission owner appointed by Ofgem following revocation of a CATO's licence, where continuity of delivery or service and system integrity where competitive arrangements cannot lead to the appointment of an alternative CATO following an Onshore Transmission Tender Exercise.

8.3. The CATO OLR option is a high-bar intervention. The decision to exercise this option will be based on regulatory judgement factors such as the nature, persistence and materiality of failure, whether credible recovery plans were implemented by the CATO; and whether continued delivery remains feasible within a reasonable timeframe.

8.4. The purpose of this guidance is to provide information to CATOs regarding the (i) process Ofgem will follow in appointing a CATO OLR, (ii) the circumstances in which this may be considered, (iii) the steps Ofgem and a CATO will follow ahead of making a decision to revoke a CATO licence and appoint a CATO OLR including information submission requirements and indicative timelines; (iv) the basis upon which a CATO's assets will be transferred to a CATO OLR post-licence-revocation; (v) and how this process interacts with the (draft) CATO licence.

CATO OLR governing principles

8.5. Ofgem's approach to considering initiating CATO OLR processes is based on the following governing principles:

- **Accurate reporting enables regulatory oversight** - The CATO will provide regular, accurate and timely reports on progress, milestones, risks, compliance and resilience.[40] Ofgem will set reporting requirements proportionate to risk and will escalate requirements (e.g., increased frequency and assurance) when risks rise.

- **CATO OLR follows licence revocation** - Ofgem will appoint a CATO OLR only following licence revocation, after a graduated, evidence-based due-process (notice of concern → corrective action plan → improvement notice/formal warning → Ofgem warning with representations → revocation). Progression through the process is intended to be flexible and proportionate. A step such as corrective action plan, for instance, may be repeated if the initial plan can be made more robust with minor improvements.
- **Remediation first approach** - Before revocation, Ofgem will require proportionate remediation with clear actions and timeframes and will document opportunities to correct issues. Revocation should only be used where remediation fails or risks become unacceptable.
- **Structured due process** - Engagement will follow a clear, time-bound sequence. Each step will be recorded with reasons, expected outcomes and deadlines.

8.6. Table 3 below sets out our cross-cutting principles when applying any CATO OLR mechanisms as per Condition F50 CATO OLR

Consumer protection	**Decisions will minimise disruption and unnecessary cost to consumers and will prioritise safe, reliable service.**
System reliability	Transition plans will maintain system security and safety standards and will coordinate with NESO to manage operational risk.
Evidence-based decisions	Interventions will be supported by verifiable data and analysis, with independent assurance used where needed.
Timeliness and predictability	Key timelines and decision points will be set and followed, with any deviations explained and justified.
Transparency and accountability	Roles and decisions will be clear and recorded, with proportionate communications that protect confidentiality.
Cost efficiency and value	Options will demonstrate value for money, including prudent use of securities and interim revenue tools, with costs kept proportionate.

[40] Reporting requirements will primarily be established through Condition F14 Regulatory Instructions and Guidance, (draft) CATO Licence.

Roles and responsibilities during the CATO OLR process

8.7. This section explains the roles and responsibilities of the relevant parties during the CATO OLR process:

- **Ofgem:** Leads the overall CATO OLR process, including (as applicable) engagement and escalation activities, decisions associated with licence revocation, and the appointment of the CATO OLR. Ofgem will coordinate the internal functions required to progress a CATO OLR appointment, including licensing, compliance, tender and commercial expertise, cost assessment, legal, enforcement (where relevant), and finance advisory support. Ofgem will also oversee the implementation steps required for transition, including any required directions, licence modifications (where relevant), and the use of transfer instruments such as a Property Transfer Scheme.
- **NESO:** Provides relevant system and operational information (including, as applicable, constraints, outage coordination, and operational dependencies) and flags delivery risks to support Ofgem's assessment of delivery and system risks and to inform information made available to a proposed appointee.
- **CATO (incumbent):** Remains responsible for compliance with its licence and applicable obligations unless and until its licence is revoked. Where Ofgem is considering CATO OLR appointment, the incumbent CATO is expected to cooperate with Ofgem's information requests,[41] assurance activities, and transition planning, and to support (where required) the preparation and implementation of transfer arrangements, including the provision of data, records and other materials necessary to enable continuity.
- **Industry codes:** Relevant codes and agreements may contain processes that support onboarding, operational handover and continuity. Where such processes are relied upon, Ofgem and the parties will take account of the applicable code requirements and the practical steps required to implement them alongside any direction, licence modification and transfer instruments.

Continuity of Project Service Delivery in the event of CATO OLR

8.8. Depending on circumstances, continuity of project or service delivery can be secured through voluntary sale or transfer, energy administration,[42] or a further Onshore Transmission Tender Exercise.

Energy Administration and insolvency interactions

8.9. The energy administration regime is a statutory process designed to protect continuity of electricity transmission services by preventing a protected energy company (PEC) (including electricity transmission licensees such as CATOs)

[41] In accordance Condition F30: Provision of Information to the Authority

[42] Energy Act 2004, Chapter 3, Special Administration Regime for Energy Licences, legislation.gov.uk.

from entering standard insolvency proceedings where the regime applies. Where triggered by financial distress, the court can appoint a specialist insolvency practitioner (an energy administrator) whose primary duty is to ensure the licensee's transmission system continues to be maintained and developed efficiently and economically, thereby supporting continuity of supply.

8.10. Energy administration is established under the Energy Act 2004 ("the Energy Act), supported by separate procedural rules in England & Wales and Scotland. It generally takes priority over Insolvency Act 1986 administration but cannot be used if the company is already in ordinary administration or liquidation under the Insolvency Act 1986.

8.11. The Energy Act also restricts creditors' ability to initiate ordinary administration for PECs without prior notice to the Secretary of State and GEMA and a waiting period, and where no energy administration application is outstanding.

8.12. In practice, the process typically involves court appointment, rapid stabilisation, the administrator running the business to meet licence obligations, and pursuing either rescue as a going concern or transfer/sale of assets to another party. Government may provide financial support (subject to relevant consents) to achieve the objectives of energy administration. If rescue is not achieved, other backstop arrangements (for example, appointment of a CATO of last resort) may be used.

8.13. Ofgem's role is primarily regulatory and supportive: providing the administrator with information needed to operate compliantly, advising on licensing and revenue-stream implications, assessing competition/merger considerations, and determining whether consent is required for asset disposals or relinquishment of operational control, potentially attaching conditions to protect consumers. Where administration costs cannot be met within the failed company, legislation provides for recovery mechanisms that can ultimately be socialised across licensees and passed to consumers.

8.14. Lastly, funder "step-in" rights and similar contractual protections are expected to operate before either energy administration or ordinary insolvency routes and may resolve distress without formal proceedings.

Other approaches

8.15. Where time, system risk and consumer interest demand, Ofgem may proceed to CATO OLR instead of these alternatives:

- **Tender failure (no viable preferred bidder):** Where a tender does not yield a viable preferred bidder, Ofgem will first consider re-tendering subject to qualifying criteria and updated cost benefit analysis demonstrating that the project still meets consumer benefit criterion and market interest.[43] Where

[43] Electricity (Criteria for Relevant Electricity Projects) (Transmission) Regulations 2024, legislation.gov.uk.

timing and system risk considerations indicate re-tendering would unacceptably delay delivery (e.g., material critical-path or constraint-cost exposure), Ofgem may appoint a CATO OLR instead. Ofgem may use a light-touch market/interest check to gauge whether a credible re-tender is feasible within the required timeframe. Decisions will be documented with reasons.

- **Post-award, pre-construction default (failure to mobilise/finance, persistent milestone misses):** If a CATO fails to mobilise or cannot secure financing, or repeatedly misses agreed milestones without credible recovery, Ofgem will draw down post-award security in accordance with Condition F39 Requirement for Security During Construction and Chapter 2 (Post-award securities) of this guidance, with tapering to reflect committed spend, to fund transition and transaction costs. Residual proceeds are returned to consumers via network charging adjustments. Transfer of design IP, surveys, consents and land rights is affected through property schemes and direct agreements.
- **Construction (material delay, repeated non-performance or insolvency):** During construction, Ofgem will attempt recovery via regulatory enforcement and any applicable contractual step-in (including lender step-in rights).[44] Failing recovery, Ofgem may appoint a CATO OLR and effect transfers using a property scheme under Schedule 2A (Property Schemes) of the Electricity Act 1989,[45] where applicable. Where insolvency prevents timely implementation of transfer arrangements, Ofgem may support the Secretary of State in using an energy administration process (see paragraphs 8.9-8.14 above) to ensure continuity.
- **Commissioning/energisation:** Where applicable, Ofgem will seek to time decisions so that safe commissioning can be completed prior to revocation; if issues remain, OLR may be considered to secure ongoing operation. This is not a standard carve-out and will be applied only where consistent with consumer interest and system security.
- **Operational phase (persistent underperformance/breach):** In operation, where there is persistent material underperformance against licence availability standards under Condition F44 (Restriction of Transmission Revenue: Availability) over a defined duration, Ofgem may take action in line with its Enforcement Guidelines.[46] This may include investigating suspected

[44] "Contractual step-in" refers to step-in/cure rights under financing and project contracts (e.g., lender step-in under direct agreements, and any associated cure arrangements). Ofgem's expectations on lender step-in are set out at paragraphs 8.29–8.31.

[45] Schedule 2A to the Electricity Act 1989 provides for "property schemes" which may transfer to (or create in favour of) the CATO rights in relation to property, rights and liabilities that are necessary or expedient for construction, commissioning or operational purposes.

[46] Ofgem's enforcement processes are set out in its Enforcement Guidelines. Ofgem may investigate suspected breaches of licence conditions or relevant requirements and, where

breaches of licence conditions or relevant requirements and, where appropriate, taking enforcement action (including making orders/directions and imposing financial penalties and/or consumer redress), with decision-making independent from the investigation function. If performance does not recover and having followed the applicable revocation process under Schedule 2 Revocation, Ofgem may appoint a CATO OLR.

- **End of revenue period tender** failure**:** If a renewal/late competition fails, Ofgem may appoint the incumbent as CATO OLR to maintain continuity, specifying interim revenue, transfer instruments, and a transition timetable.

Remediation and Pre-Revocation Due Process

8.16. Ofgem will adopt a remediation-first approach. The aim will be to resolve issues efficiently and fairly through graduated engagement, using revocation only where remedies do not deliver or risks become unacceptable.

8.17. Ofgem will follow a structured engagement process with the CATO based on the following steps:

- **Early informal engagement:** Where concerns arise (e.g., material slippage against milestones, emerging delivery or compliance risks), Ofgem will initiate informal engagement with the CATO. The CATO will set out immediate stabilisation actions and will provide the information needed for Ofgem to assess whether formal escalation is required.
- **Notice/Letter of Concern with recommendations:** If issues persist or are material, Ofgem will issue a Notice/Letter of Concern requiring the CATO to remediate as per Ofgem's recommendations. The Notice/Letter of Concern will describe root causes, targeted actions, milestones, resourcing, risk controls and how delivery will be evidenced. It will specify timescales for implementation and reporting, and will identify any dependencies (e.g., consents, finance, contractor mobilisation).
- **Improvement Notice / Formal Warning:** Where the Notice/Letter of Concern is inadequate or not delivered, Ofgem will issue an Improvement Notice / Formal Warning setting out compliance outcomes, firm deadlines and enhanced reporting/assurance requirements. Consequences of non-compliance will be stated, including potential progression to final warning and revocation.
- **Final Warning Notice (with representation window):** If concerns remain unresolved, Ofgem will issue a Final Warning Notice. This notice will set out the basis for potential revocation, the proposed timing, and the representation window during which the CATO may make submissions. Ofgem will consider those representations, will weigh consumer and system impacts, and will confirm any further remedial steps if appropriate.

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appropriate, take enforcement action (including making orders/directions and imposing financial penalties and/or consumer redress). Ofgem's decision-makers are independent from its investigators.

- **Notice and representations**: Before revocation, Ofgem will follow due process, including giving appropriate notice, inviting representations, and publishing reasons for decisions. Specific timeframes will be determined by the relevant licence and statute.
- **Revocation and transition to CATO OLR:** Where remedial efforts fail or risks remain unacceptable, Ofgem may decide to revoke the CATO licence in accordance with Schedule 2 of the licence. The revocation decision will document the evidence, steps taken, and reasons. Ofgem will initiate the CATO OLR process to secure continuity of delivery and an orderly transfer.

8.18. Ofgem will use a range of tools to monitor and assure CATO performance ahead of initiating any CATO OLR process, based on the following approach:

- **Early warning and monitoring**: Ofgem will track indicators from: (i) ring-fence conditions (e.g., annual financial resource certifications); (ii) regulatory reporting (RIGs) on performance and finance; and (iii) market intelligence (e.g., credit ratings and other public signals). These indicators inform proportionate engagement with the CATO and (where relevant) lenders to resolve issues at the lowest level of escalation.
- **Acting on information**: Where signals indicate emerging issues, Ofgem will engage promptly with the CATO (and, as appropriate, funders and stakeholders) to understand root causes and practical solutions. The objective is to resolve matters without revocation wherever feasible, using proportionate measures and clear timelines.
- **Review**: Ofgem will conduct regular reviews of progress in accordance with the relevant reporting licence conditions and the information submitted by the CATO further to the RIGs, with review frequency set proportionately to risk and project stage. Quarterly reviews may be required for early projects or elevated-risk cases.
- **Independent Technical Advisor (ITA):** Ofgem may deploy ITA support where needed to assess and validate CATO performance, delivery forecasts and risks, and recovery plans.
- **Escalation and de-escalation**: Based on evidence, Ofgem will escalate or de-escalate requirements (e.g., reporting frequency, assurance scope) to reflect risk and performance.
- **Notice and representations:** Before revocation, Ofgem will follow due process, including giving appropriate notice, inviting representations, and publishing reasons for decisions. Specific timeframes are determined by the relevant licence and statute.

Property, Data, and Rights Transfer

8.19. Asset transfers will secure continuity of delivery and lawful operation following any licence revocation process. The transfer package will be specified in the CATO OLR Direction and any accompanying instruments to support a clean and timely handover.

Transfer Instruments and Sequence

8.20. Transfer will typically be progressed first through commercial transfer arrangements between the outgoing CATO and the incoming party (including a transfer agreement where applicable). Where a negotiated transfer is not achievable within the required timeframe, Ofgem may use statutory transfer mechanisms to secure continuity. Where insolvency prevents timely implementation of transfer arrangements, Ofgem will support the Secretary of State in deploying an energy administration as a backstop to ensure continuity.

8.21. Where transfer is progressed via a commercial agreement between parties, Ofgem does not endorse or take responsibility for the commercial terms of that agreement, and nothing in a commercial agreement constrains Ofgem's discretion in relation to statutory transfer mechanisms used to secure continuity.

8.22. The outgoing CATO will transfer all interests necessary for the CATO OLR to assume responsibility, including: physical assets and site possession; design IP and technical files; surveys and studies; land rights and wayleaves; permits and consents; contracts and sub-contracts; bonds, guarantees and warranties; O&M arrangements; spares and critical inventory; H&S files; operational data, models and records; and (where applicable) any relevant reserves or funds held in relation to the project. Where items cannot be assigned (e.g., due to counterparty consent), the outgoing CATO will cooperate to provide lawful use or replacement arrangements.

8.23. Ofgem will use the most effective legal route(s) for timely transfer having regard to the sequence described in paragraph 8.17 above. These may include:

- Schedule 2A property schemes (Electricity Act 1989) will be used as the primary route where applicable to transfer property, rights and liabilities.
- Licence directions and contractual novations will be used to give effect to assignments and step-in.

8.24. Where insolvency prevents timely transfer arrangements being implemented, Ofgem will support the Secretary of State in deploying an energy administration process to ensure continuity.

8.25. To minimise disruption, Ofgem will determine whether an asset transfer or a share transfer of the CATO is more efficient. The decision will consider project stage, speed of execution, consent and change-of-control implications, counterparty readiness, tax and accounting impacts, and preservation of warranties and guarantees.

8.26. Transferred assets will be valued on an appropriate basis that reflects project stage and condition, with clear treatment of work-in-progress, retained risks, and any defects. The approach will align with the termination/compensation framework (including the role of securities and transaction costs) and will set out who pays, when payments fall due, and how any adjustments will be trued up/corrected.

8.27. The transfer package will address:

- Site possession and safety (access control, live-site hazards etc.)
- Unfinished works (status, acceptance criteria, and completion responsibilities)
- Latent defects (assignment of warranties and recourse, defect notification periods)
- Insurance and surety (continuity of cover, claims handling, and replacement sureties)
- Supply-chain continuity (novation or re-procurement; treatment of critical spares)
- where applicable, treatment of any relevant reserves or funds held in relation to the project.

Data and records

8.28. The outgoing CATO will deliver a complete set of operationally necessary documentation and datasets, including design models and as-built records; asset registers and maintenance histories; protection settings; operational configurations; permits and environmental records; and applicable safety files. Data will be provided in agreed formats with a clear description of content and provenance, and confidentiality will be protected in line with licence and law.

Lender and security interests

8.29. Where lender step-in rights apply, Ofgem expects these to be exercised or otherwise exhausted before proceeding to a CATO OLR appointment, unless doing so would jeopardise system security or consumer protection. Ofgem intends to coordinate statutory/licence notices with any contractual step-in or enforcement processes and to facilitate access to information reasonably required by lenders (and any step-in appointee) to assess and implement cure plans.

8.30. Where lender action is unavailable, unsuccessful, or would unacceptably delay restoration of service, Ofgem will proceed with OLR implementation and support the releases/assignments of security and other transfers needed to give effect to the OLR direction, including (where applicable) via Schedule 2A property schemes and, where insolvency obstructs timely implementation of transfer, via energy administration.

8.31. In practical terms, this typically runs in sequence: lender notifications and cure, then any lender step-in; if issues remain unresolved, Ofgem would issue a CATO OLR direction, followed by the transfer instruments (including, where applicable, a Schedule 2A property scheme) needed to give effect to that direction; where insolvency prevents timely implementation, energy administration may be sought.

Handover governance and timelines

8.32. The CATO OLR direction will set a mobilisation timetable, critical milestones (e.g., Day-1 controls, access and control change, systems cutover), and a definitive handover checklist. Exceptions will be logged, with closure plans and target dates. Ofgem will monitor progress and will escalate where handover risks threaten safety, reliability or timetable.

Termination payments

8.33. This section sets out Ofgem's approach to termination payments where a CATO licence is revoked and a CATO OLR is appointed. The objective of the termination payment framework is to support an orderly transfer of responsibilities, protect the interests of consumers, and maintain the integrity and financeability of the regime. Where failure is attributable to the CATO, the framework will protect debt first, with equity remaining at risk. Transaction costs will be netted before any payment.

8.34. Termination payments are not automatic. Any payment will depend on the circumstances of termination, the stage of the project, and the applicable commercial framework. Termination payments operate alongside, and do not replace, other mechanisms, including the draw-down of securities, statutory transfer schemes, and interim revenue arrangements for an appointed CATO OLR.

Calculation of the termination amount

8.35. Where a termination payment is considered appropriate, Ofgem will determine the amount payable by reference to the following steps.

Step 1: Establishing the project value at termination

8.36. As a first step, Ofgem will assess the value of the project at the point of termination. This will reflect:

- efficient incurred costs to date;
- the stage of delivery, including work-in-progress; and
- the condition and completeness of assets, designs, consents, and contractual positions.

8.37. A CATO's incurred inefficient costs, or costs that arise from non-compliance or poor performance, may be excluded.

Step 2: Deductions and adjustments

8.38. From the assessed project value, Ofgem will deduct, as applicable:

- amounts already recovered or recoverable through securities;
- Ofgem's costs and third-party costs associated with termination, transfer, or stabilisation;
- costs required to rectify defects, address safety or compliance issues, or enable the project to be transferred to a CATO OLR; and
- any other amounts appropriately borne by the outgoing CATO.

8.39. These deductions ensure that consumers do not pay twice for the same risks or costs.

Step 3: Allocation between debt and equity

8.40. After applying relevant deductions:

- amounts (if any) will first be applied to meet efficiently incurred senior debt obligations,
- equity will receive payment only to the extent permitted by the commercial model and only where termination is not attributable to the CATO.

8.41. Where termination is attributable to the CATO, equity is expected to remain at risk and will not ordinarily receive a termination payment.

Step 4: Interaction with asset transfer and residual value

8.42. Termination payments will be considered alongside the valuation and transfer of assets, rights, and liabilities under statutory property schemes or other transfer mechanisms.

8.43. Where assets are transferred to a CATO OLR (or otherwise retained for ongoing use), Ofgem will ensure that:

- there is no double recovery of value between termination payments and asset valuation; and
- any residual value is treated consistently with the revenue arrangements applicable to the receiving party.

Securities and safeguards

8.44. Securities posted by the CATO form a primary protection for consumers in the event of termination. Ofgem expects securities to be drawn down, as appropriate, before any termination payment is made.

The operation of securities, including draw-down, replenishment, and application of proceeds, is addressed in licence Condition F39 and Chapter 2 of this guidance.

Timing and payments

8.45. The timing of any termination payment will depend on:

- completion of valuation and deduction processes;
- confirmation of transferred assets, liabilities, and project; and
- any required true-up or correction once the position has stabilised under the CATO OLR.

8.46. Ofgem may make interim determinations where necessary, with final amounts subject to adjustment once full information is available. Decisions will be taken in accordance with Ofgem’s statutory duties, relevant licence conditions, and related published policy decisions.

9. Other CATO licence conditions

Section summary

This section provides guidance to CATOs on how to interpret other licence conditions in the (draft) CATO licence beyond the processes described above, including the reason for including the condition and the effect of it, as well as any other relevant information to aid understanding of the licence conditions.

Condition F1: Housekeeping

9.1 The purpose of this condition is to enable non-substantive, criteria-based housekeeping modifications that improve coherence, definitions and cross-references within the CATO transmission licence. It intends to preserve the licence's substantive effect, ensuring no change to rights, obligations, incentives or revenues; any material change would proceed under section 11A of the Electricity Act.

Condition F2: Regulatory Accounts

9.2 The purpose of this condition is to ensure transparency and accountability in the financial reporting of CATO. It requires CATOs to maintain and provide Ofgem information on their financial accounts covering aspects such as the revenues, costs, assets, liabilities and reserves. Consequently, Ofgem will be able to monitor whether CATOs are operating efficiently in the best interest of consumers.

9.3 This condition also iterates the separability requirements for CATOs under the Electricity (Criteria for Relevant Electricity Projects) (Transmission) Regulations 2024 applicable to early competition. It requires a licensee to prepare, publish and maintain regulatory accounts so that financial information of the transmission business and affiliates is separately identifiable. The ownership and control must be separable from the ownership and control of the transmission system. Accordingly, where the CATO is structured as a Special Purpose Vehicle (SPV), the requirement may be met through the submission of statutory financial statements, reflecting the ring-fenced nature of such entities.

Condition F3: Disposal of Relevant Assets

9.4 This purpose of this condition is to establish the framework for regulatory scrutiny and our approval of asset disposals by CATOs. It is intended to ensure that any disposal of relevant assets does not compromise the integrity, reliability, or long-term value of the transmission system, and that we retain appropriate oversight of material changes to the asset base. This condition also supports the development of a clear and enforceable mechanism for the transfer of assets at the end of the revenue period.

Condition F4: Prohibition of cross-subsidies

9.5 This purpose of this condition is to prevent the CATO from providing any form of cross-subsidy to, or receiving a cross-subsidy from, any other business or entity particularly those within the same corporate group or involved in other parts of the electricity system. It ensures that the CATO operates on a financially independent and transparent basis, protecting consumers and maintaining a level playing field in the competitive delivery of transmission infrastructure.

Condition F5: Restriction on Activity and Financial Ring Fencing

9.6 This purpose of this condition is to ensure the financial stability and independence of the CATO by restricting it from engaging in activities unrelated to the transmission business. It requires the CATO to operate solely for the purpose of developing, financing, constructing, operating, and maintaining the licensed transmission assets. This ring-fencing protects consumers by insulating the CATO from financial risks arising from other business ventures within the same corporate group. The condition also sets out the circumstances under which the CATO may hold shares or investments and retains the ability to carry out limited 'de minimis' activities, provided they do not compromise the licensee's core functions or financial integrity.

Condition F6: Availability of Resources

9.7 This purpose of this condition is to ensure that the CATO maintains sufficient financial, managerial, and operational resources to carry out its licensed transmission activities safely, reliably, and efficiently. It reinforces the principle that the CATO must be self-sufficient and capable of delivering its obligations throughout the lifecycle of the project. This condition complements the financial ring-fencing provisions in Condition F7 by requiring the licensee to actively monitor and confirm the adequacy of its resources, thereby supporting our oversight of financial resilience and operational readiness in a competitive delivery model.

Condition F7: Undertaking from ultimate controller

9.8 The purpose of this condition is to ensure that the ultimate controllers of the CATO formally acknowledge and support the licensee's obligations under the transmission licence. It requires the parent company or controlling entity to provide a binding undertaking confirming that it will not take any action that could cause the CATO to breach its licence conditions. This reinforces accountability at the group level and ensures that strategic or financial decisions made by the parent company do not compromise the operational or financial integrity of the licensed transmission business. The condition complements the financial ring-fencing provisions in Condition F7 by helping to isolate the CATO from group-level risks and ensuring that the licensee remains focused on its regulated duties.

Condition F8: Indebtedness

9.9 The purpose of this condition is to limit the financial risks associated with the CATO taking on debt, thereby safeguarding the financial stability and independence of the licensed transmission business. It sets out the types of debt arrangements the CATO may enter into and imposes restrictions to prevent excessive or inappropriate borrowing that could compromise its ability to meet its regulatory obligations. The condition also supports the ring-fencing framework by ensuring that any indebtedness is structured in a way that does not expose the CATO to group-level financial risks or undermine its creditworthiness. This is particularly important in a competitive regime where the licensee may be an SPV and reliant on project-specific financing.

Condition F9: Credit Rating of Licensee and related obligations

9.10 The purpose of this condition is to make an external credit rating a conditional requirement on a CATO. The condition sets out our proposed credit rating requirements for all stages of project development, construction and operation. We are particularly keen to hear industry and stakeholder responses to the proposed level of credit worthiness (investment grade) and whether this should remain consistent across all the above stages.

Condition F10: Security Arrangements (Fuel Security Code)

9.11 The purpose of this condition is to ensure that the CATO implements and maintains effective security arrangements to protect its systems, assets, and operations that are critical to the delivery of transmission services. These arrangements should be proportionate to the risks faced and reflect good industry practice, including alignment with national security objectives. The condition supports the resilience and integrity of the wider electricity transmission network by requiring the CATO to identify, assess, and manage physical, cyber, and information security risks in a coordinated and transparent manner.

Condition F11: System Operator – Transmission Owner Code

9.12 The purpose of this condition is to ensure that the CATO works collaboratively with the System Operator (SO) in accordance with the System Operator – Transmission Owner Code (STC). This includes complying with the STC, maintaining its provisions, and implementing any modifications. The condition supports coordinated planning, operation, and development of the transmission system, ensuring that the CATO's activities are fully integrated with the wider network and contribute to its safe, secure, and efficient functioning.

Condition F12: Scottish Settlement Agreement

9.13 The purpose of this condition is to ensure effective coordination between the CATO and NESO in relation to the operation of the transmission system across jurisdictions. This condition facilitates the integration of the Scottish transmission network with the wider Great Britain system, supporting secure and efficient system operation. It also enables appropriate financial settlements between parties, ensuring that cross-jurisdictional activities are managed transparently and in accordance with agreed procedures.

Condition F13: Obligation to provide transmission services

9.14 The purpose of this condition is to place a clear obligation on the CATO to provide transmission services to the Independent System Operator for Power (ISOP). This condition underpins the reliable and efficient delivery of transmission services by ensuring that the CATO supports the ISOP in fulfilling its system operation responsibilities. It reinforces the CATO's role in maintaining system integrity, facilitating energy flows, and contributing to the overall performance and resilience of the transmission network.

Condition F14: Regulatory Instructions and Guidance (RIGs)

9.15 The purpose of this condition is to ensure that the licensee provides us with accurate and timely information necessary to monitor the financial and operational performance of the consolidated transmission business. It supports our ability to assess the licensee's compliance with the terms of the licence and its obligations in relation to the design, construction, operation, and maintenance of the onshore transmission system.

9.16 This condition secures the collection of specified actual and forecast information (including both annual reporting and more frequent in year reporting) to an appropriate degree of accuracy so that we can monitor the delivery, operation and revenue of the CATO's project and assets. It creates the reporting framework that enables us to monitor the CATO's revenue entitlement, cost information, availability incentive information, incremental capacity incentive information, SF6 information and forecast revenue information.

9.17 We intend that all relevant CATO reporting is established through Condition F14. We will consult on the specific details of the CATO reporting requirements through the RIGs in due course.

Condition F15: Transmission system security standard and quality of service

9.18 The purpose of this condition is to ensure that the CATO designs, operates, and maintains its transmission assets in accordance with defined security and reliability standards. This condition supports the safe and secure operation of the electricity transmission system by requiring the CATO to meet minimum thresholds for system performance and resilience. It also underpins the delivery of a reliable service to users and contributes to the overall stability and efficiency of the wider transmission network.

Condition F16: Functions of the Authority

9.19 The purpose of this condition is to empowers Ofgem to oversee and, where appropriate, approve the methodologies used by the CATO in relation to system access and connection offers. This oversight ensures that the CATO's processes are transparent, consistent, and aligned with regulatory expectations. The condition supports effective coordination with the ISOP and enables Ofgem to assess whether the CATO's approach facilitates fair access to the transmission system while maintaining compliance with licence obligations.

Condition F17: Prohibition on engaging in preferential or discriminatory behaviour

9.20 The purpose of this condition is to ensure that the CATO acts fairly, impartially, and without discrimination when interacting with system users. This includes the provision of transmission services (Condition F13), the handling of connection offers (Condition F36), and the operation and maintenance of the transmission system to defined standards (Condition F15). It also supports transparent coordination with the System Operator under the STC (Condition F11), reinforcing the integrity and openness of the CATO's role within the wider transmission framework.

Condition F18: Prohibition on selling electricity

9.21 The purpose of this condition is to maintain a clear separation between the CATO's role as a transmission service provider and the competitive activities of electricity generation and supply. This condition prohibits the CATO from buying or selling electricity, thereby preventing conflicts of interest and preserving the integrity of the electricity market. It supports a level playing field for market participants and reinforces the CATO's focus on delivering impartial and reliable transmission services.

Condition F19: Requirement for sufficiently independent directors

9.22 The purpose of this condition is to strengthen corporate governance by requiring the CATO to appoint at least two Sufficiently Independent Directors to its board. These directors must not be involved in the management of any affiliated business. The condition is designed to safeguard against conflicts of interest and ensure that the CATO's decision-making remains independent from undue influence by parent or affiliate companies, thereby supporting transparency, accountability, and regulatory confidence.

Condition F20: Notification of changes that may affect eligibility for certification

9.23 The purpose of this condition is to ensure that the CATO remains compliant with the ownership unbundling requirements under the Electricity Act and relevant post-Brexit UK regulations. It requires the CATO to notify us of any changes that may affect its eligibility for certification as an independent transmission operator. This condition supports the legal and structural separation of transmission from generation and supply activities, helping to prevent conflicts of interest and promote a competitive and transparent energy market.

Condition F21: Whole Electricity System Obligations

9.24 The purpose of this condition is to ensure that transmission owners, including CATOs, coordinate and cooperate with each other, the ISOP, and electricity distributors to support a fully integrated and efficient electricity system. This includes building a shared understanding of where actions taken by one party may have cross-network impacts, positive or negative, on others. The condition promotes system-wide planning and operation, helping to maintain reliability, optimise investment, and support whole-system outcomes.

Condition F22: Activities Restrictions

9.25 The purpose of this condition is to define the scope of activities that the CATO is authorised to undertake under its licence. It restricts the licensee from engaging in activities that fall outside the provision of transmission services, unless expressly permitted. This condition ensures that the CATO remains focused on its core function as a transmission owner, avoids conflicts of interest, and maintains clear operational and financial separation from other commercial activities.

Condition F23: Conduct of the Transmission Business

9.26 The purpose of this condition is to ensure that the CATO conducts its transmission business in a manner that is consistent with its obligations under the licence and wider regulatory framework. This includes maintaining operational independence, acting in a transparent and non-discriminatory manner, and avoiding conflicts of interest. The condition supports the integrity of the CATO regime by reinforcing high standards of conduct, accountability, and alignment with the public interest.

Condition F24: Separation and Independence of the Transmission Business

9.27 The purpose of this condition is to ensure that the CATO's transmission business operates independently from other affiliated activities, including generation, supply, other transmission businesses, and the System Operator. It supports regulatory and operational separation, helping to prevent conflicts of interest and undue influence. It reinforces the integrity of the CATO regime by ensuring that decision-making, resource allocation, and commercial conduct are aligned solely with the responsibilities of the transmission licence.

Condition F25: Restriction on Use of Certain Information

9.28 The purpose of this condition is to prevent the misuse of confidential or commercially sensitive information obtained by the CATO in the course of its licensed activities. It ensures that such information is not used to gain an unfair commercial advantage or distort market competition. The condition supports fair market conduct, protects the interests of system users, and reinforces trust in the regulatory framework.

Condition F26: Appointment of Compliance Officer

9.29 The purpose of this condition is to ensure that the CATO appoints a suitably qualified Compliance Officer responsible for monitoring and facilitating compliance with the licence, particularly in relation to business separation, information restrictions, and independence obligations. The condition supports effective internal governance, helps prevent conflicts of interest, and provides assurance to the Authority that the CATO is meeting its regulatory responsibilities in a transparent and accountable manner.

Condition F27: Excluded Services

9.30 The purpose of this condition is to set out the basis on which certain services provided by the licensee may be treated as Excluded Services under the CATO licence. These are services that fall outside the scope of the regulated Transmission Owner Revenue and conform to the general principles defined in the condition. By identifying and excluding revenue derived from these services from the calculation of the licensee's Transmission Owner Revenue, we ensure that only revenues associated with core regulated activities are subject to revenue restriction provisions. This supports transparency in the licensee's financial reporting and helps maintain the integrity of the regulatory framework by clearly distinguishing between regulated and non-regulated income streams.

Condition F28: Ongoing Fit and proper requirement

9.31 We will provide updated guidance on Ongoing Fit and Proper requirements in due course following consideration of responses to a now-closed consultation.[47]

Condition F29: Project Specification/Technical Annex

9.32 The purpose of this condition gives effect to the CATO commercial framework by requiring the licensee, before the TRS Commencement Date, to plan and develop the licensee's Transmission System in accordance with the Technical Specification and, following the PPWCA, the Post Adjustment Technical Specification. Its purpose is to ensure that the transmission system developed through Pre-Construction Works, Construction and Commissioning remains aligned with the project requirements approved through the early competition process, while giving the Authority the information and independent assurance it may need to assess compliance. This reflects Ofgem's Early Competition commercial framework, which covers the CATO's preliminary works and construction stages, the post preliminary works cost assessment, and the arrangements that apply after a CATO licence is granted. The condition has the following parts:

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[47] Introducing a general ongoing fit and proper requirement, ofgem.gov.uk.

Part A. Tendered Scope of Works (TSW)

- The TSW issued by NESO, setting out the project requirements, technical outputs, interfaces, standards and performance obligations that the CATO must satisfy including:
    - The network need being addressed
    - Required transmission capability and performance outputs
    - Connection requirements and system interfaces
    - Technical and operational boundaries
    - Applicable codes, standards and engineering requirements
    - Any project-specific technical data and mandatory requirements

Part B: Bid Baseline Solution

- These are the successful bidder's technical, delivery and operational proposals submitted at Invitation to Tender (ITT) and evaluated as part of the tender process.
    - Technical solution design
    - Delivery and construction methodology
    - Operations and maintenance approach
    - Planning and consenting strategy
    - Key technical assumptions and parameters
    - Programme and target delivery milestones
    - Other technical commitments made in response to the ITT requirements

Part C. Post-Adjustment Solution

- An updated version of Part B reflecting any design modifications approved through the PPWCA process prior to construction, such as:
    - Design refinements informed by surveys, investigations and stakeholder engagement
    - Changes required to secure planning permissions or consents
    - Other design variations accepted through the PPWCA process
    - Any associated adjustments to scope, programme or technical parameters approved by Ofgem

Condition F30: Provision of information to the Authority

9.33 The purpose of this condition is to mandate that CATOs provide pertinent information to Ofgem as requested from time to time for the purposes of performing its functions under an applicable statute or regulations. Where relevant, the parent company of the licensee will need to sign an undertaking to the effect that it will provide to the licensee any information needed under this condition by Ofgem.

Condition F31: Provision of Information to the ISOP

9.34 The purpose of this condition is to ensure that we receive timely and accurate estimates from the licensee of its TRS for the current financial year (t) and the following financial year (t+1). These estimates must also be provided to NESO to support effective financial planning and coordination. The condition sets out when these estimates should be submitted, including initial notifications following licence grant, annual updates, and any revisions where the licensee identifies a material change. This helps us monitor the licensee's expected revenue profile and supports transparency and alignment with the financial arrangements under the CATO regime.

Condition F32: Data Assurance Requirements

9.35 The purpose of this condition is to reduce the risk and impact of inaccurate, incomplete, or misleading information being reported to us. It requires the CATO to implement appropriate data assurance processes and controls to support the integrity of regulatory reporting. The condition also sets out the process by which we may issue and amend Data Assurance Guidance, ensuring that expectations remain clear, consistent, and proportionate over time.

Condition F33: Not used [blank]

Condition F34: Equity Transaction Reporting Requirement

9.36 The purpose of this condition is to ensure that the licensee provides us with consistent and transparent information on equity transactions relevant to the financial structure of the licensee. It requires annual reporting of equity investments and changes, including those occurring at the point of asset transfer and throughout the licence term, where such transactions may affect the valuation or ownership profile of the licensee. The condition supports our ability to monitor the financial arrangements underpinning the CATO's delivery of its obligations, assess the implications of equity movements for the stability and suitability of the licensee, and maintain oversight of the competitive regime's integrity.

Condition F35: Sulphur Hexafluoride Reporting Requirements

9.37 The purpose of this condition is to require the licensee to submit annual information to us on sulphur hexafluoride (SF_6) emissions arising from its

Transmission Business. The purpose is to ensure we receive consistent, accurate, and transparent data on the use and release of SF_6, a potent greenhouse gas, to support our environmental monitoring and decarbonisation objectives. The condition allows us to specify the format, content, and supporting commentary required through the F14 Regulatory Instructions and Guidance (RIGs). It also requires the licensee to make this information publicly available, reinforcing transparency and accountability in the environmental performance of the licensee's operations.

Condition F36: Additional Works: Obligations in relation to offers for connection etc.

9.38 The purpose of this condition is to ensure that, on ISOP notification, the licensee makes timely, coordinated and non-discriminatory offers and information for connection and additional works aligned with the NOA setting clear scope, dates and costs, cooperating with STC parties, and subject to proportionate limits where compliance would breach statutory or licence duties.

Condition F37: Requirements of a connect and manage connection

9.39 The purpose of this condition is to ensure that CATOs provide connection offers that enable earlier access to the transmission system, in line with the Connect and Manage regime. By avoiding unnecessary delays to grid access, this condition supports the timely connection of new projects, particularly low-carbon generation, and contributes to the achievement of net zero and wider decarbonisation targets.

Condition F38: Duration of the Revenue Restriction Provisions

9.40 The purpose of this condition is to set out the process by which a licensee may formally request the disapplication of the Charge Restriction Conditions, either in full or in part. It enables us to consider such requests where the licensee provides sufficient justification and supporting information and ensures that any disapplication takes effect only after a defined minimum period and in accordance with the terms of the licence. The condition also provides a mechanism for the licensee to terminate the application of the relevant provisions in specified circumstances, including where we have not published a decision on the proposed modifications or where a decision has been successfully appealed. This framework ensures clarity and predictability around the duration of the revenue restriction arrangements, while preserving our ability to assess and respond to changes in the licensee's regulatory or commercial circumstances.

Condition F39: Requirement for Security During Construction

9.41 The purpose of this condition is to require the licensee to put in place and maintain security arrangements during the period from licence grant until the TRS Commencement Date, in respect of delivery of the development of the licensee's Transmission System. The condition supports the CATO's obligation to progress delivery during the preliminary works and construction stages by requiring security for the Protected Amount, reporting to us on the sufficiency of those arrangements, and having regard Chapter 2 of the CATO Guidance.

Condition F40: Allowances in respect of Security Costs

9.42 The purpose of this condition is to provide a targeted mechanism for recovering Allowed Security Costs during a Security Period. It does so by enabling temporary adjustments to Charge Restriction Conditions, permitting equitable increases to charges, requiring post-year reporting, and intends to protect consumers through reconciliation and reimbursement of any excess recovery.

Condition F41: Basis of Transmission Owner Charges

9.43 The purpose of this condition is to set out the process by which we require the licensee to prepare and submit a statement detailing the basis on which it will make transmission owner charges. These charges may relate to Transmission Owner Services, connections to the licensee's Transmission System, and Outage Changes. The condition ensures that the licensee provides sufficient detail to enable NESO to make reasonable estimates of the charges it may incur.

9.44 It also supports transparency and accountability in how site-specific charges are calculated, including the recovery of costs and a reasonable rate of return. We may direct the licensee to revise or resubmit statements to reflect changes in policy or operational requirements, and we expect the licensee to keep these statements accurate and up to date throughout the licence term.

Condition F42: Restriction of Transmission Revenue: Revenue from Transmission Owner Services

9.45 The purpose of this condition is to establish the revenue restriction governing the licensee's Transmission Owner Services. It provides the core revenue recovery mechanism for a CATO throughout the licence term. It establishes how the Tender Revenue Stream submitted during the competition is translated into the annual revenue that may be recovered from consumers, while also providing for adjustments to reflect inflation, financing outcomes, operational performance, reconciliation of over- and under-recovery, and end-of-term asset value. Together, these provisions are intended to ensure that revenue recovery remains aligned with the licence framework over the full duration of the project.

9.46 The condition sets the framework for Allowed Transmission Owner Revenue ($CATO_t$) per Relevant Year from the TRS Commencement Date, including: Base Revenue (TRS adjusted for milestone, PPWCA, debt-funding and market-rate adjustments), indexation and partial-year factors, availability adjustment, revenue correction (K_t), post-financial-close adjustments (PT_t), and residual value treatment ($\mu_t \times RV_t$). This is the key condition for treating the CATO’s revenue under the licence.

Condition F43: Restriction of Transmission Revenue: Post-Financial Close Revenue Adjustments

9.47 The purpose of this condition is to provide mechanisms for adjusting a CATO's allowed revenue after Financial Close where specified events, costs or circumstances arise that were not incorporated into the revenue stream established under Condition F42. It establishes the Post-Financial Close Revenue Adjustment Term (PT_t), which allows for recovery of certain pass-through costs and approved revenue adjustments. These include costs such as licence fees, network rates, Crown Estate lease payments and tender fees, as well as adjustments relating to Additional Works, decommissioning obligations, temporary physical disconnection payments and qualifying Income Adjusting Events. The condition is intended to ensure that CATOs can recover efficiently incurred costs arising from specified exogenous events while maintaining appropriate consumer protections and regulatory oversight.

Condition F44 Restriction of Transmission Revenue: Availability

9.48 The purpose of this condition is to adjust Allowed Transmission Owner Revenue to reflect transmission system availability. It does so by deriving the performance availability revenue adjustment term from availability incentives and intends to incentivise timely restoration and good industry practice, with notification and justification required for extended service reductions to promote transparency and sustained performance.

9.49 Note that in due course we may cover other incentives, if applicable, based on the RIIO framework. We will not be consulting on those incentives separately as they have already been consulted on as part of the RIIO-3 consultation[48].

Condition F45 Restriction of Transmission Revenue: Adjustments

9.50 The purpose of this condition is to safeguard consumers by aligning Regulated Transmission Revenue with Allowed Transmission Owner Revenue. It does so by requiring explanations when variance exceeds defined thresholds, constraining future charge increases where over-recovery occurs, and enabling adjustments after persistent divergence. It intends to promote transparency, timely corrective action and revenue stability, while retaining accountability where revenue undershoots trigger explanation.

Condition F46: Application for PPWCA Adjustment

9.51 The purpose of this condition is to establish a structured application, assessment and determination process for PPWCA Adjustments, ensuring timely submission, evidenced Permissible Project Changes, indexation updates and independent assurance, and intends to reflect justified cost changes in Base Revenue in an efficient and economic manner.

9.52 The PPWCA occurs near the end of the preliminary works phase to fix Project Costs and the Target TRS Commencement Date for use in the debt funding competition. We will run the process (with NESO support as needed), using two baselines: a Technical Annex in the licence setting out required outputs, and the winning bidder's Project Specification, which captures the bid's baseline costs and assumptions (including the Financial Model, indices, tendered costs, construction spend profile, index forecasting, assumed financing terms and market rates).

9.53 Once all material planning consent applications have been submitted, the CATO must evidence (i) indexation movements and (ii) any permissible project changes (i.e., the changes that could not reasonably have been foreseen by a diligent bidder using appropriate desktop studies) that warrant TRS adjustments and, where applicable, changes to the Target TRS Commencement Date to manage changes-driven delays. For indexation, the CATO identifies actual inflation

[48] RIIO-3 Final Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors, ofgem.gov.uk.

changes from the tender base date to the PPWCA date and applies forecast changes from the PPWCA date to when costs are expected to be incurred.

9.54 We will scrutinise and determine the PPWCA Adjustment (subject to a 40% cap). We have considered the route any challenge to the PPWCA Adjustment would proceed on. It would either be via licence modification (with CMA appeal route) or via directions (with judicial review). Current drafting assumes directions to align with the timetable for the funding competition, though this could revert to licence modification based on the feedback gathered for this consultation.

Condition F47: Asset Health

9.55 The purpose of this condition is to require a health review of Transmission Assets, approved in scope and timing as per any guidance issued by the Authority, no later than five years before the TRS end date. It intends to secure timely remediation through Authority-directed works and, if necessary, cost determinations, to maintain asset condition and protect consumers.

Condition F48: Refinancing

9.56 The purpose of this condition is to set out the process for an Agreed Refinancing, both before and after commencement of the Tender Revenue Stream. It enables the Authority to assess whether the timing and proposed approach to any refinancing are in consumers' interests before the licensee proceeds.

9.57 The condition also requires the licensee to provide periodic refinancing reports, submit an Agreed Refinancing Proposal before commencing any refinancing Debt Funding Competition, and comply with any determination, direction or reporting requirement issued by the Authority.

Condition F49: Arrangements for the handover of business

9.58 The purpose of this condition is to ensure an orderly transfer of the Transmission Business to a CATO of Last Resort at revocation, expiry, or on Ofgem's direction. It does so by requiring a Business Handover Plan, prohibiting circumvention, enabling contract novation, and requiring support/information, with transfer facilitated under the Electricity Act by Schedule 2A property scheme.

Condition F50: Competitively Appointed Transmission Owner of Last Resort (CATO OLR)

9.59 The purpose of this condition is to ensure continuity and stability in the delivery of onshore electricity transmission services by enabling Ofgem to appoint a CATO of Last Resort (OLR) where necessary. This may arise if a competitive tender process fails to appoint a CATO. The condition provides a regulatory fallback mechanism that safeguards the integrity of the transmission regime, maintains investor confidence, and ensures that critical infrastructure can continue to be delivered without undue delay.

Schedule 1: Specified Area

9.60 This Schedule identifies the transmission area to which the licence applies, where the licensee’s assets will be situated. It includes a technical description of the transmission assets (both pre- and post-construction), the geographic boundaries of the project, and the interface points with the existing transmission system. These details define the scope of the licensee’s responsibilities and the physical extent of the licensed Transmission Business.

Schedule 2: Revocation

9.61 This schedule sets out the circumstances in which the licence may be revoked. It does so by specifying triggers including agreement to revoke, defined non-payment of fees, non-compliance with enforcement orders or financial penalties, non-compliance with specified competition/enterprise orders, failure to commence or cessation of the Transmission Business, loss of statutory certification, and insolvency events, with corresponding notice periods (including 24-hour and 7-day cases) and safeguards for bona fide disputes.

Appendices

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Appendix 1	Worked examples of the PPWCA ‘reasonably foreseeable’ test
Appendix 2	Post-award securities – Process examples
Appendix 3	Cumulative Additional Works tracker

Appendix 1 Worked examples of the PPWCA 'reasonably foreseeable' test

A1.1 Below are, for illustrative purposes only, two worked examples of the 'reasonably foreseeable' test.

Scenario 1 — Local Plan Policy (Planning & Consenting)

Bid context (for illustration)

Bid cut-off: 15 March 2026

Project: 400 kV OHL reinforcement with substation extension

CATO submission package (at PPWCA)

- Hyperlinks/screenshots: Link to the Local Planning Authority (LPA) portal showing the adopted Local Plan (adopted 30 Nov 2025) and the Proposals Map designating the ancient woodland adjacent to the proposed alignment; dated screenshots and document numbers/versions included.
- Causality Statement (CS):
    - Trigger: Policy in the adopted Local Plan sets a 30 m ecological buffer to ancient woodland (adopted prior to bid cut-off).
    - Action created: Compliance with the buffer is required by the adopted policy.
    - Design consequence: Minor micro-deviations around the woodland edge would be needed if the alignment encroaches within 30 m.
    - Bid baseline: Desktop pack at bid included the adopted Local Plan and Proposals Map; mitigation and micro-deviation allowances were included as ordinary planning costs.
    - Nexus (foreseeability): The policy and mapped designation were public, clear, and specific before bid cut-off.
- Quantified Impact Statement (QIS): Confirms that any micro-deviation and local mitigation were already covered by bid allowances; no incremental cost increase sought against the bid baseline.
- Mitigation Note (MN): Confirms that route micro-adjustments within the corridor and standard ecological measures were evaluated and that the solution remains the least-cost option consistent with the policy requirement.

Step 1: Ofgem Screening Assessment

- Access: Yes. The Local Plan and Proposals Map were public and adopted before bid, with authoritative status (not draft/provisional).
- Detectability: Yes. A competent desktop search of the LPA's public portal would locate the adopted plan and the mapped designation.

- Specificity: Yes, policy states a numeric 30 m buffer, which is specific enough to cost at bid.
- Timing: No. The trigger did not arise after bid; it existed before bid cut-off.

Screening result: On the strength of Access: Yes, Detectability: Yes, Specificity: Yes, and Timing: No, the policy impact is reasonably foreseeable at ITT desktop level. Ofgem records the outcome of Step 1.

Step 2: Ofgem Clarification Request (only if required)

Clarification (if needed):

- Confirm that the linked Local Plan and Proposals Map were the adopted versions as at 15 March 2026;
- Provide archived links or cached copies and document numbers/versions;
- Confirm that the policy (30 m buffer) was in force at bid cut-off.

Expected response: CATO to provide hyperlinks/screenshots and references, appended to the submission. (If the initial package already contains this evidence, no clarification is required.)

Step 3: NESO Final Technical Assessment (FTA)

Request to NESO: Following a clear Step 1 record (and any clarifications), Ofgem requests NESO's Final Technical Assessment (FTA).

NESO FTA focus:

- Confirm that the adopted policy and mapped designation were accessible (either openly available or through acquired access) pre-bid;
- Confirm that the numeric buffer is clear and specific and that a competent desktop-only bidder would have identified and priced any micro-deviations/standard mitigations as ordinary planning costs.
  Return: NESO provides the FTA to Ofgem.

Step 4: Ofgem Decision Note

Stage-1 outcome: Reject at Step 1 → Foreseeable.

Reasoning recorded by Ofgem: A diligent desktop bidder would have identified the adopted policy and mapped designation before bid, and the policy's numeric buffer is specific enough to price. Any local route-shaping and standard ecological measures are ordinary planning costs covered by bid allowances.

Scenario 2 – Dataset

Bid context (for illustration)

- Bid cut-off: 15 March 2026

- Project: 275 kV OHL realignment including a river crossing

CATO submission package (at PPWCA)

- Hyperlinks and/or dated screenshots:
    - At bid: Environment Agency (EA) beta flood layer (watermark “BETA – NOT QUALITY ASSURED”), captured 2 March 2026, showing no Flood Zone 3 at the crossing.
    - Post-bid: EA authoritative flood map published 28 April 2026, captured 1 May 2026, reclassifying the crossing area to Flood Zone 3.
    - Desktop log extract evidencing the EA check at bid.
- Causality Statement (CS):
    - Trigger: EA publication (28 Apr 2026) of the authoritative flood map that reclassified the river-crossing area to Zone 3.
    - Action created: The Zone-3 classification requires either engineered construction in high-risk flood areas or avoidance of Zone 3.
    - Design consequence: Short alignment diversion to a Zone-3-free corridor with associated works (e.g., terminal gantries and limited temporary works).
    - Bid baseline: At bid, only the beta layer existed and showed no Zone 3 at the crossing; standard flood allowances were priced as ordinary planning risk.
    - Nexus: The authoritative classification did not exist at bid and therefore was not discoverable via a desktop-only search.

- Quantified Impact Statement (QIS):

Principles: Use bid-consistent unit rates where available (with the agreed indexation step applied first). Where a unit is not in the bid, evidence a new rate using recent, traceable market evidence or normalised internal benchmarks; present clear inclusions/exclusions and reconcile to the bid overhead/profit structure. Unchanged scope is not re-priced. Offsets remove any costs already covered by bid allowances. Provide bounded sensitivities only where quantities remain uncertain.

- Mitigation Note (MN):

Short explanation of options considered and why the chosen response is least-cost/least-disruption consistent with consenting/safety requirements; confirm no betterment beyond the original intent/specification.

Step 1: Ofgem Screening Assessment

- Access: No (at bid). The only source at bid was beta (not adopted/approved/final); the authoritative layer did not exist at bid.
- Detectability: No. A competent desktop search could not have found the authoritative classification at bid.

- Specificity: Yes. The released authoritative map delineates Zone 3 specifically and determinatively.
- Timing: Yes. The trigger (authoritative classification) arose after bid.
- Screening result: Record “potentially unforeseeable” at Step 1 and proceed to clarification and technical assessment.

Step 2: Ofgem Clarification Request (where required)

Clarifications sought (illustrative):

1. Confirmation that, at bid, only the EA beta layer was available for the crossing.
2. Link or API/release note confirming the publication date of a reliable map version (28 Apr 2026) and the capture date (1 May 2026).
3. Desktop-log extract evidencing the 2 Mar 2026 check.
4. Confirmation that the CS, QIS, and MN follow the submission requirements (e.g., indexation applied first to bid-consistent items; offsets to avoid double counting; no re-pricing of unchanged scope).

Step 3: NESO Final Technical Assessment (FTA)

Request to NESO: Provide an FTA addressing:

- Causality/authority: Confirmation that the authoritative EA map was published post-bid, and that the beta layer at bid was not authoritative.
- Desktop benchmark: Whether a competent desktop-only bidder could reasonably have discovered or priced the post-bid reclassification at bid.
- Quantification discipline: Whether the QIS follows the required approach (indexation applied first to bid-consistent units; incremental items only; offsets to prevent double counting; bounded sensitivities).
- Mitigation: Whether the selected option credibly minimises cost and programme risk without betterment beyond the tendered intent.

NESO returns the FTA to Ofgem.

Step 4: Ofgem Decision Note

Outcome: Unforeseeable — progress to efficiency assessment under PPWCA.

Reasoning recorded by Ofgem:

- Access/Detectability: Authoritative classification did not exist at bid and was therefore not discoverable via a desktop-only search.
- Specificity/Timing: The authoritative release is specific and determinative and arose post-bid.

- Submission discipline: The CS, QIS and MN meet the information requirements (indexation first on bid-consistent rates; incremental quantification only; offsets applied; bounded sensitivities).

A Decision Note captures the Step 1 checks, any clarifications, NESO's FTA conclusions, and the outcome, with links to the CS, QIS, MN and dated sources.

Appendix 2 Post-award securities – process examples

A2.1 This appendix contains worked examples to demonstrate how the post-award securities process (see Chapter 2) operates, including tapering.

Example 1 - £800m forecast project cost (cap applies)

Assumptions: forecast construction costs £800 million; 10% of forecast construction cost = £80 million; cap = £50 million.

Physical completion %	cost	10% of forecast	Cap	FCA / security
0%	£800 million	£80 million	£50 million	£50 million
25%	£600 million	£60 million	£50 million	£50 million
50%	£400 million	£40 million	£50 million	£40 million
75%	£200 million	£20 million	£50 million	£20 million
90%	£80 million	£8 million	£50 million	£8 million

Example 2 – £400 million forecast construction costs (no cap)

Physical completion %	cost	10% of forecast	FCA / security
0%	£400 million	£40 million	£40 million
20%	£320 million	£32 million	£32 million
40%	£240 million	£24 million	£24 million
60%	£160 million	£16 million	£16 million
80%	£80 million	£8 million	£8 million
90%	£40 million	£4 million	£4 million

Appendix 3 Cumulative additional works tracker (minimum fields)

CATOs should maintain a cumulative tracker. This template sets out minimum fields.

Case ID	Trigger type	Trigger date	STC/ STCP route	Description of request	Category	Costs borne by connecting party? (Y/N)	Cost counted towards cumulative? (Y/N)	Pre-commissioning feasible? (Y/N)	Timing decision	Estimated cost (£m)	Cumulative total (£m)	Cumulative % of original capex