Decision

Modifications to special conditions of the Electricity Generation Licence granted to Sizewell C Limited, the PFCIs, and the CDA Calculation Model

Publication date:	3 September 2026
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Executive summary

Overview

Following the designation of Sizewell C Limited ('Sizewell C') as the first company to operate under the Nuclear Regulated Asset Base (RAB) model, Ofgem established the economic regulatory framework for the project and has overseen its implementation.

Our role is to administer the licence, while discharging our statutory duties, including our principal objective to protect the interests of existing and future consumers.

Through ongoing engagement with the licensee, we have identified areas where amendments are required to improve the licence and associated financial models. On the 16 July 2026 we published:

1. a Statutory Consultation, which mainly proposed modifications to the Licence, the Price Control Financial Model (PCFM), the Price Control Financial Handbook (PCFH), and the Cost of Debt Adjustment (CDA) Calculation Model to ensure the framework operates as intended throughout the extended First Charging Year; and,
2. a Notice of Proposed Modifications, which proposed additional minor changes correct errors and address gaps in the licence and financial models that relate to the extended First Charging Year and the calculation of Allowed Revenue.

The changes also remove a tax allowance linked to interest receivable where consumers do not benefit from the underlying interest income.

We received one response to our consultation on proposed modifications to the regulatory framework for Sizewell C Limited from Sizewell C, which is published alongside this decision.

Sizewell C broadly supported the proposed amendments to the Sizewell C Electricity Generation Licence, the PCFM, the PCFH, and the CDA Calculation Model. Sizewell C agreed that the changes are needed to improve the regulatory framework.

Context

Under the Nuclear Energy (Financing) Act 2022, Ofgem is the economic regulator for the nuclear RAB regime and is responsible for regulating the designated nuclear licensee, Sizewell C Limited, to protect consumers while supporting the delivery of new nuclear generation. As part of our ongoing oversight of the Sizewell C regulatory regime, we have monitored the practical operation of the licence and supporting financial models following commencement of construction activities. Ofgem identified several areas where amendments were required to improve the functionality of the framework and ensure that the calculations undertaken to set Sizewell C's revenue were robust and accurate.

In particular, a number of issues arose from the treatment of the project's First Charging Year, which is 17 months in duration rather than a typical 12-month Charging Year.

Consultation Response

We are grateful to Sizewell C for responding to the consultation.

Sizewell C's response recognised the importance of maintaining a clear and operable regulatory framework as the project progresses through construction. It supported most of the proposed modifications without proposing refinements, raising one specific refinement relating to the inflation factors used in the Time Value of Money (TVM) calculation, and identified areas for consideration prior to the 2027 Annual Revenue Setting Process.

We have carefully considered the response and remain satisfied that the modifications are necessary, proportionate, and consistent with the objectives of the Sizewell C regulatory regime.

Our Decision

Having considered Sizewell C's consultation response, we have decided to implement the proposed modifications. The modifications are summarised below and where appropriate, are further described in Appendix 1 for changes to the PCFM, Appendix 2 for changes to the CDA Calculation model, and Appendix 3 for changes to the PCFH:

Revised treatment of Partial Period Share

We have decided to amend the definition of "Partial Period Share" within the licence and associated financial models. This amendment ensures that regulatory calculations appropriately reflect Charging Years that are either longer or shorter than 12 months. The change improves the operability of the regime and ensures consistent treatment across the licence, the PCFM, the PCFH, and the CDA Calculation Model.

Amendments to the Time Value of Money calculation

We have decided to amend the calculation of the Time Value of Money (TVM) adjustment to ensure that it reflects the actual duration of a Charging Year rather than assuming a standard 12-month period. This change will improve the accuracy of K-factor and Cost of Debt Adjustment reconciliations and reduce the risk of over- or under-remuneration arising from non-standard charging periods.

Removal of tax allowance for interest receivable

We have decided to remove the tax allowance associated with interest receivable. We remain of the view that consumers should not fund tax costs associated with interest income that is retained by the licensee and from which consumers do not directly benefit.

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Changes to the CDA Calculation Model

We have decided to amend the CDA Calculation Model as part of giving effect to the other decisions in this document.

In addition, we have made a minor correction to change 1f of the CDA calculation model to reflect the correct number of days in each Charging Year. Note this correction only reflects the 2024 and 2025 periods, which contain zero values. We discussed this change with representatives from Sizewell C who did not raise any concerns with correcting the erroneous formula presented in the consultation document. Accordingly, the correction does not alter the substantive effect of the proposed modification.

Related Financial Model Changes

Alongside these statutory modifications, we have decided to proceed with other directed amendments to the Price Control Financial Model (PCFM), the Price Control Financial Handbook (PCFH) and the CDA Calculation Model. These changes address identified functionality issues and ensure that the financial models accurately implement the requirements of the licence. We have published a separate letter setting out the changes being made by direction.

The changes include revisions to:

- K-factor true-up calculations for the extended First Charging Year;
- Difference Payment inputs and associated revenue calculations;
- Tax allowance calculations relating to operational expenditure and pass-through costs;
- CDA reconciliation calculations; and
- Actual Market Revenue calculations, including the treatment of Actual Supplemental Revenue.

Collectively, these amendments improve the accuracy, transparency and robustness of the financial framework and help ensure that Allowed Revenue is calculated consistently with the requirements of the licence.

Changes subject to this statutory modification decision are highlighted **pink**. Changes being made by direction are highlighted **blue.** These changes are reflected in the marked-up version accompanying this consultation decision.

Consumer and Strategic Benefits

We consider that these decisions support our wider objective of protecting existing and future consumers while enabling investment in critical energy infrastructure required to deliver a secure and decarbonised energy system. Most of the modifications correct errors or address gaps in the licence and financial models, improving the accuracy, consistency, and operability of the regulatory framework during construction. Separately, the removal of the tax allowance for interest receivable helps ensure consumers do not remunerate costs linked to income from which they do not benefit. Together, these changes support confidence that consumers are funding only efficient and appropriately recoverable costs.

Next Steps

In accordance with section 11A(9) of the Electricity Act 1989, licence modifications subject to the statutory consultation will come into effect 56 days after this decision letter is published, on **29 October 2026**. The PCFM and the CDA Calculation Model directed modifications come into effect on the **3 September 2026**.

We will be using the updated PCFM, PCFH, and the CDA Calculation Model to calculate Sizewell C's Allowed Revenue, a process set out in the PCFH. Our licence modifications arising from this consultation will be published on Ofgem's electronic public register (ePR). Subject to the necessary approvals and publication processes, it is our intention to publish the updated CDA Calculation Model. Updates to the PCFH will be published on the Price Control Financial Model and guidance for Sizewell C webpage alongside this decision.

Introduction

We have concluded our consultation on proposed modifications to the Sizewell C regulatory framework and have decided to implement a series of changes to the Sizewell C licence, the Price Control Financial Model (PCFM), the Price Control Financial Handbook (PCFH), and the Cost of Debt Adjustment (CDA) Calculation Model. The changes are intended to improve the operability, accuracy and consistency of the Regulated Asset Base (RAB) framework as the project progresses through construction. The modifications address issues identified through practical implementation of the regime, including the treatment of the extended First Charging Year, the calculation of certain revenue adjustment mechanisms and the calculation of tax allowances. Together, these changes will help ensure that the regulatory framework continues to operate as intended, supporting efficient project delivery and maintaining appropriate protections for consumers.

Context and related publications

Sizewell C is regulated under a dedicated RAB framework established pursuant to the Nuclear Energy Financing Act 2022. As part of our ongoing oversight of the regime, we have reviewed the operation of the licence and associated financial models following the commencement of construction activities. This review identified several areas where changes were required to improve functionality, ensure consistency across the framework and better reflect the circumstances of the project during construction.

On 16 July 2026, Ofgem published the Sizewell C Statutory Consultation and the Notice of Proposed Modifications in accordance with section 11A of the Electricity Act 1989. The consultation sought views on amendments to the Sizewell C licence, the PCFM, the PCFH, and the CDA Calculation Model. In parallel, Ofgem published a notice proposing a number of directed modifications intended to correct errors of functionality identified within the financial models and associated guidance.

Consultation Response

We received one response to our statutory consultation published on the 16 July 2026, from Sizewell C. Sizewell C supported the proposed modifications overall and agreed that it address workability issues in the licence, the PCFM, the PCFH, and the CDA Calculation Model, particularly in relation to the 17-month First Charging Year. Sizewell C proposed one refinement to the TVM calculation.

Proposed Modifications to Special Condition 27.21 Valuation of the Regulation Asset Base during the Pre-PCR Phase

This section outlines the response we received on our proposed modifications to Special Condition 27.21. This change will alter the definition of Partial Period Share, used to adjust returns for a Charging Year that is not equal to 12 months.

Partial Period Share only accounts for a Charging Year that is 12 months or less. This means this term does not reflect the possibility of a year that is longer than 12 months, which impairs the operability of the regime given that the First Charging Year is 17 months long.

Our Proposals

Term	Description	Price Base
Partial Period Share	means the Partial Period Share being, to the extent applicable, the share of the partial period in the relevant Charging Year to reflect ~~that the Charging Year is a part year~~ where the relevant Charging Year is more or less than 12 months and, where the relevant Charging Year is ~~not a part year~~ equal to 12 months, will be equal to 1	N/A

(modifications in red)

Summary of Response

One respondent, Sizewell C, provided a response relevant to this proposed modification. Its response agreed with the proposal to update Partial Period Share so that it reflects the actual length of a Charging Year where that year is longer than 12 months. Sizewell C considered the change necessary to ensure the framework correctly reflects the 17-month First Charging Year and aligns the licence, the PCFM, the PCFH and the CDA Calculation Model. It confirmed that the change has been tested successfully against its financial model and did not propose any refinements or further changes.

Decision based on response

Having considered the respondent's feedback, we have decided to proceed with the proposed modification. We consider that the amendment is necessary to ensure that Partial Period Share operates correctly for a Charging Year that is longer than 12 months and to support consistency across the licence and associated financial models.

Proposed Modification to Price Control Financial Instruments (PCFIs) in relation to interest receivable

This section outlines the response we received on our proposal for modifications to the Price Control Financial Instruments (PCFI) in relation to interest receivable. We consulted on modifying the PCFH and the PCFM to remove the tax allowance Sizewell C is currently remunerated for in relation to interest receivable.

Interest receivable is currently retained by Sizewell C and, reflecting this, it is not appropriate that consumers bear the tax costs associated with it as they do not benefit from the underlying interest income. Additionally, Sizewell C is unlikely to incur corporation tax on interest receivable during the Pre-PCR Phase so without a change to the PCFM it would be remunerated for a cost not expected to arise as proposed.

Summary of Response

The respondent provided a response relevant to this proposed modification. Sizewell C agreed with the removal of interest receivable from the Tax Allowance calculation. It stated that the change is consistent with the intended scope of remuneration under the licence and avoids unnecessary complexity. It also noted that it does not expect any corporation tax liability to arise on interest income during the construction phase, meaning the change should not materially affect the project's financial outcomes. Sizewell C requested clarification that interest receivable balances will not be required as PCFH variable inputs, and Ofgem has confirmed this position.

Decision based on response

Having considered Sizewell C's response, we have decided to proceed with the proposed modification. We remain satisfied that removing interest receivable from the Tax Allowance calculation is appropriate because consumers do not benefit from the underlying interest income and because the relevant corporation tax cost is not expected to arise during the Pre-PCR Phase.

Proposed Modification to Special Condition 30.11 Allowed Revenue during the Pre-PCR Phase

This section outlines the response we received on our proposed modification to Special Condition 30.11. This change will amend the licence algebra for the Time Value of Money ('TVM') parameter to ensure it correctly reflects the actual length of a Charging Year. This change affects both the calculation of the K-factor true up ('K-factor') and the Cost of Debt Adjustment (CDA) Building Block, ensuring each is calculated correctly where the length of a Charging Year is more or less than 12 months.

Making this change will align the TVM adjustment to the rest of the licence. This will ensure the licensee is not over or under remunerated when calculating the value of the K-factor and the CDA Building Block.

This change will ensure that where a Charging Year is longer or shorter than 12 months, the "Time Value of Money" formula ensures calculations are proportionate to the actual length of the Charging Year rather than 12 months. This will reduce the risk of inconsistent treatment across the licence, the PCFM, the PCFH and the CDA Calculation Model.

Proposed modification to existing terms and definitions in SC 30.11

TVM_t for each Charging $Year_t$ in the Pre-PCR Phase other than the Final Pre-PCR Phase Charging Year will be calculated in accordance with the following formula:

$$TVM_t = \left[\left(1 + IWACC_t{}^{PartialPeriodShare}\right)\frac{PI_{t+1}}{PI_t}\right] - 1$$

Where:

Term	Description
TVM_t	means the Time Value of Money for the relevant Charging $Year_t$
$IWACC_t$	has the meaning given to it in Special Condition 1 (Interpretation and Definitions), as may be adjusted for Charging $Year_t$ in accordance with Special Condition 41 (Timely Achievement of COD)
PI_t+1	means CPIH for Charging $Year_t+1$
PI_t	means CPIH for Charging $Year_t$
PartialPeriodShare	Means the Partial Period Share for Charging $Year_t$ calculated in accordance with paragraph 21 of Special Condition 27

(modification in red)

Summary of Response

The respondent provided a response relevant to this proposed modification. Sizewell C agreed with the proposal to amend the Time Value of Money (TVM) formula so that it incorporates Partial Period Share algebra. Sizewell C considered that this adjustment is necessary to ensure that where a Charging Year is longer or shorter than 12 months, the "Time Value of Money" formula ensures calculations are proportionate to the actual length of the Charging Year rather than 12 months.

Sizewell C proposed one refinement: "… inflation factors used in the TVM calculation should reflect the Charging Year (CY1) rather than FY27, consistent with Licence wording". It raised this during pre-consultation discussions and included it in its formal response.

Decision based on response

Having considered Sizewell C's response, we have decided to proceed with the proposed modification to include Partial Period Share algebra in the TVM formula. This aligns the approach with the rest of the regime and ensures calculations appropriately reflect the length of the Charging Year.

We have considered Sizewell C's proposed refinement regarding the treatment of inflation. We recognise the rationale of the proposal and will revisit this issue ahead of the next Annual Revenue Setting Process. We note that, were the proposal to be adopted, it would have no impact on the k-factor and only an immaterial impact on the CDA for the second Charging Year.

Send us your feedback

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

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

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

Appendix 1. Proposed changes to Sizewell C Price Control Financial Model (PCFM)

Change number	Modification	Model reference	Formula as published (column M by default)	Formula as updated (column M by default)
1	Partial period share	AR!L13:CV13	n/a	=FinancialInputs!M14
2a	Partial period share	AR!L40:CV40 (previously AR!L39:CV39)	=FinancialInputs!M63	=IF(AND(SUM($K13:M13)>1,SUM($K13:M13)<2), (1+FinancialInputs!M63)^(SUM($K13:M13))-1,FinancialInputs!M63)
2b	Partial period share	AR!M44:CV44 (previously AR!M43:CV43)	=K37*(1+K41)*(1+L41)	=IFS(SUM($K$13:M13)<3,0,SUM($K$13:M13)<4, SUM($K$38:K38),1,K38) *(1+K42)*(1+L42)
3a	Interest receivable	Finance&Tax!L280:CV280	=FinancialInputs!L332	[set to blank values]
3b	Interest receivable	FinancialInputs!L320:CV320 (previously FinancialInputs!L316:CV316)	=0	[set to blank values]

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3c	Interest receivable	FinancialInputs!L320:CV320 (previously FinancialInputs!L316:CV316)	= INDEX(M$311:M$325,MATCH($E332&$H332,$E$311:$E$325& $H$311:$H$325,0))	[set to blank values]

Appendix 2. Proposed changes to the Sizewell C CDA Calculation Model

Change number	Modification	Model reference	Formula as published (column O by default)	Formula as updated (column O by default)
1a	Partial period share	Inputs!F18	n/a	31/03/2027 (column F)
1b	Partial period share	Outputs!H14	n/a	=Inputs!$F$18 (column H)
1c	Partial period share	Outputs!O14:DW14	n/a	=IF(AND($H14>=O$6,$H11<=O$7),1,0)
1d	Partial period share	Private debt reference point!H14 CDA!H14 D1!H14 to D20!H14	n/a	=Outputs!H14 (column H)
1e	Partial period share	Private debt reference point!O14:DW14 CDA!O14:DW14 D1!O14:DW14 to D20!O14:DW14	n/a	=Outputs!O14

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1f	Partial period share	CDA!O65:DW65	=Inputs!O$41	=IF(AND(O14=1,P14=0),(1+Inputs!O$42)^(SUM(N8:O8)/O8)-1,(1+Inputs!O$42)^(O8/DAYS(O7+1,O6))-1)
1g	Partial period share	CDA!J67	% real	% nominal

Appendix 3. Proposed changes to Sizewell C Price Control Financial Handbook (PCFH)

Part A: Changes within the scope of this statutory modification:

1.1 The PCFH is being updated into a new template with updated formatting.

1.2 Modification of the PCFH to remove the tax allowance Sizewell C is currently remunerated in relation to interest receivable. The variable value $Int_{receivable}$ has been removed from Table 3.1, found under the heading “List of PCFM Variable Values” in the PCFH. This is found on pages 23-27, in Chapter 3. PCFM Input Data.

1.3 Modification of the PCFH in 2.20 to change reference to row 41 to row 42 and in 2.22 to change reference to row 43 to row 44. These are consequential changes as a result of adding in a row to the PCFM in order to modify the licence condition 27.21.