Clifford Chance

What's next:
The UK's Competitively Appointed Transmission Owner (CATO) regime

Ofgem's draft CATO licence, published on 19 August 2026, brings the UK's new onshore transmission asset class closer to market. We examine the pathway to a project pipeline, the commercial proposition and the key issues for investors and delivery partners ahead of the first tender.

August 2026

At a glance

1

What is a CATO and why is the regime being introduced?

2

Project pipeline and tender process

3

Commercial proposition and why the consultation matters

4

Key dates and what market participants should do now

1 What is a CATO and why is the regime being introduced?

Key takeaways

- The CATO regime creates a competitively tendered right to design, finance, build, own and operate onshore electricity transmission assets, activities that have, until now, been undertaken by the three incumbent onshore transmission owner groups.
- Large-scale onshore transmission projects supported by a long-term, regulated, availability-based revenue stream are expected to come to market for the first time.

Further details

- Britain's National Energy Systems Operator (NESO) estimates that approximately £58 billion of direct investment in onshore and offshore transmission infrastructure will be needed during the 2030s to meet net zero targets.
- The CATO regime is intended to introduce competition and innovation into the delivery of grid upgrades, expand delivery capacity and attract new sources of capital and expertise, with the objective of achieving efficient delivery and value for consumers, accelerating delivery timelines and enhancing system resilience.
- The model is closely informed by the offshore transmission owner (OFTO) regime, introduced in 2009, which has facilitated more than £12 billion of investment across ten tender rounds. Many of the building blocks of the CATO regime (such as the regulated tender revenue stream and availability performance incentives) are similar to equivalent aspects of the OFTO framework, but the timing of the tender is an important structural difference.
- Unlike the traditional 'generator build' OFTO model, under which bidders generally acquire completed transmission assets, the initial CATO tenders will adopt an 'early model' of competition, under which competitive tender occurs before detailed design, consenting and construction. The successful CATO will therefore take on construction and delivery risk, while retaining responsibility for developing the detailed design and delivery strategy within the tendered technical parameters.
- Bidding groups are therefore likely to combine equity sponsorship with engineering, construction, consenting and operational capability. Contractors and technical partners may participate as consortium members, shareholders, key subcontractors or delivery partners, depending on the structure adopted.
- Incumbent transmission owners are able to participate alongside other bidders, and therefore conflict mitigation measures have been prescribed by Ofgem (such as separation of the bidding units from the wider transmission group and employee transfer restrictions).

2 Project pipeline and tender process

Key takeaways

- NESO's market engagement materials indicated an illustrative capex range of £100 million to £3 billion per project, for the initial CATO projects.
- NESO is committed to establishing a strong pipeline of tenders for CATO projects. The first tendered CATO project is expected to be recommended by NESO later in 2026, alongside the development of an initial project pipeline.
- Projects will be identified from NESO's centrally developed national plan for future transmission reinforcement, under a 'system-led' (rather than 'developer-led') approach.
- The first CATO tender is expected to commence during 2027.

Further details

- CATOs are appointed through a five-stage competitive tender run by NESO and overseen by Ofgem.
- To qualify for the tender, bidders will be evaluated on financial criteria (so as to determine the level of financial risk if Ofgem were to grant the bidder a licence), technical criteria (focusing on demonstrated delivery experience of comparable scale, including planning, consenting, construction, operations and supply chain management) and general standing (including evaluation of any parties that may influence a bidder's decision-making).
- Bidders compete on their required tender revenue stream (the TRS), as well as deliverability, planning strategy and financing approach. Bidders develop their proposed solution within NESO's tendered technical scope and common network parameters, enabling bids to be compared against consistent required outputs.
- The successful bidder will be subject to a post-award security obligation from the award of a licence to commissioning, to mitigate the risk of the CATO withdrawing or defaulting before commissioning. Separate payment or security arrangements may apply in respect of Ofgem and NESO tender costs during the tender process.

STAGE 1 · ~4 MONTHS

Pre-qualification – assessed on financial strength, technical track record and general standing.

STAGE 2 · ~10 MONTHS

Invitation to tender – qualifying bidders submit priced, technical and delivery proposals against a common indicative solution.

STAGE 3 · IF REQUIRED

Best and final offer – if required, allows shortlisted bidders to refine their offers.

STAGE 4 · ~2 WEEKS

Functions assessment – NESO reports to Ofgem on the conduct and outcome of the tender before the preferred bidder process progresses.

STAGE 5

Preferred bidder and licensing – the successful bidder becomes the CATO once Ofgem grants the licence.

3 The commercial proposition and why the consultation matters

Key takeaway

The CATO model offers long-term regulated revenues for delivering strategic transmission infrastructure but places material development, construction, financing and performance risk on the successful bidder. The draft licence now shows how that allocation of risk and responsibilities could operate in practice.

Further details

The commercial proposition:	What prospective bidders and delivery partners need to test:
35-year regulated revenue stream: An availability-based tender revenue stream (TRS) begins when the asset is commissioned and certified as available for operation. Revenue is funded through transmission charging arrangements and is subject to partial CPIH indexation.	**Development and PPWCA risk:** Does the "diligent desktop bidder" foreseeability test, evidential burden and cap on upward adjustments leave sufficient protection for planning, consenting, ground condition and design uncertainty?
Cost reset before construction: The Post-Preliminary Works Cost Assessment (PPWCA) adjusts the TRS for prescribed indexation, approved permissible project changes and pre-construction additional works, before the debt funding competition and financial close.	**Credit and financeability:** Can the project SPV maintain the proposed investment-grade ratings during construction and operation, and how would that affect gearing, sponsor support, financing structure and bidder participation?
Financing calibrated to market outcomes: A post-PPWCA debt funding competition and market-rate discovery process replace tender-stage assumptions with financing terms available at financial close.	**Refinancing flexibility:** Can the framework accommodate multiple facilities, debt types and maturities over the 35-year term, given Ofgem oversight and the proposal that the economic impact of an 'Agreed Refinancing' affects consumers?
Defined life cycle and exit framework: The regime includes an end-of-term residual value mechanism, asset-health review, possible extension or retendering and CATO of Last Resort arrangements.	**Downside and continuity:** Are security, lender step-in, revocation, handover, valuation and CATO of Last Resort arrangements sufficiently coordinated to protect delivery continuity and financing value in a distress scenario?

4 Key dates and what market participants should do now

Key takeaways

- Ofgem's draft generic CATO licence provides the market with its clearest view yet of the proposed revenue, risk-allocation, financing and failure arrangements.
- The consultation draft largely translates the previously announced commercial model into detailed licence conditions and guidance, rather than revisiting its fundamental architecture.
- With the first CATO tender expected to launch in 2027, prospective investors and delivery partners should now be testing consortium structures, delivery capability, financing strategies and the implications of the proposed licence terms. The consultation provides an opportunity to influence the final regime until 16 October 2026.

19 AUG 2026
Ofgem opens its non-statutory consultation on the CATO licence and guidance.

16 OCT 2026
Consultation responses due – the window to help shape the final licence terms.

LATER IN 2026
NESO expected to request the first project(s) for tender from the pipeline identified through its national plan for future transmission reinforcements.

EARLY 2027
Ofgem to publish its response, ahead of a formal statutory licence consultation.

DURING 2027
NESO expected to launch the first CATO onshore competition tender.

Key contacts

Clare Burgess
Partner, London

+44 20 7006 1727
clare.burgess@cliffordchance.com

Jonathan Dillon
Partner, London

+44 207006 1099
jonathan.dillon@cliffordchance.com

Nigel Howorth
Head of Global Environment Group, London

+44 207006 4076
nigel.howorth@cliffordchance.com

Nicholas Hughes
Partner, London

+44 207006 4621
nicholas.hughes@cliffordchance.com

Micheal Pearson
Partner, London

+44 207006 4753
michael.pearson@cliffordchance.com

Kirsty Souter
Senior Associate, London

+44 207006 4178
kirsty.souter@cliffordchance.com

Bryony Theaker
Partner, London

+44 207006 2162
bryony.theaker@cliffordchance.com