

Insights

OFGEM SIGNALS NEW MOMENTUM FOR CATO PROGRAMME

WHAT EXPECTATION A.4 MEANS FOR MARKET PARTICIPANTS

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SUMMARY

The sixth in a series of articles exploring the Competitively Appointed Transmission Owners (CATO) regime.

As part of the government's wider review of the electricity transmission network via the Integrated Transmission Planning and Regulation Project, and after its successful introduction of competition to offshore transmission assets and their owners (OFTOs), Ofgem has continued to consult on introducing competitive tenders for the design, build and operation of onshore transmission assets, thereby creating Competitively Appointed Transmission Owners (CATOs). We have previously considered:

- the specific characteristics of CATOs;
- the difference between the development models proposed by Ofgem in its consultation – “early”, “late” and “very late”;
- the proposed revenue stream and incentives;
- Ofgem's work in 2024 on finalising an “early” model of competition; and
- and Ofgem's Decision and updated policy position on the onshore electricity transmission Early Competition commercial framework.

In late November 2025, the National Energy System Operator (NESO) published its regulatory business plan for April 2026 - March 2028 (the NESO1 Business Plan). Ofgem has statutory duties to regulate NESO by assessing its business plans, ensuring its cost-efficiency and by incentivising high performance, with Determinations on NESO's business plans forming a key component of the regulatory framework designed to effectively execute these duties for regulating NESO.

Ofgem's Draft Determinations of 10 February 2026 serve as a consultation on Ofgem's positions regarding the NESO1 Business Plan, briefly explaining the NESO regulatory framework and outlining for stakeholder consideration and comment various aspects including Strategic Aims, Performance Objectives, Value for Money assessment, reporting requirements, and innovation funding allowances. Responses are due by 10 March 2026, and Ofgem intends to publish its Final Determinations in Q1 2026/27.

Stakeholder responses to this consultation are vital to the development of a robust performance framework for NESO, with stakeholder views shaping how Ofgem holds NESO to account.

THE CATO PROGRAMME TAKES CENTRE STAGE

For stakeholders - infrastructure funds, OFTO specialists, EPC/construction partners and their lenders - who have been positioning themselves for the CATO market, the Draft Determinations contain a crucial signal: competitive delivery of transmission infrastructure is becoming a regulatory priority.

In the Draft Determinations Ofgem has established Expectation A.4 under NESO's Performance Objective A (*Planning a Clean Energy Future*), focused specifically on "Greater competition and innovation in network development". This marks a clear emphasis on NESO's regulatory performance being explicitly measured against its success in advancing the CATO programme.

The rationale is clear: competitive tendering of network build has the opportunity to increase innovation and reduce the cost of build of certain projects, and NESO has a key role in identifying the possible projects (both for presentation to Ofgem for project selection and to industry for awareness). For market participants who have been awaiting the first CATO tender, this regulatory expectation suggests that project identification and tender launch may finally be gaining institutional momentum.

WHAT NESO MUST DELIVER

NESO's activities under Expectation A.4 include identifying potential projects suitable for competitive delivery, running an efficient tender process (including by growing bidder volume), and working with the market to prepare it for the quantity, type and nature of competitive projects.

Significantly, NESO's performance will be measured against concrete Success Measures: the number and quality/fit of potential projects for competitive delivery identified; tender process stages run in line with expectations; appropriate level of market interest at relevant stages; and market readiness, including mock tenders or other engagement.

WHAT THIS MEANS FOR YOUR INVESTMENT STRATEGY

For parties interested in the CATO market, several implications emerge:

- First, pipeline visibility is coming. NESO is now explicitly tasked with identifying and communicating potential competitive projects to industry. Developers and financiers should expect greater transparency about which transmission assets may enter the competitive pipeline.
- Second, market preparation is a priority. The reference to mock tenders and market engagement suggests NESO will be working to ensure bidders are ready when tenders launch. This creates opportunities for dialogue, early engagement and capability building.
- Third, performance accountability matters. NESO's regulatory settlement is now linked to advancing competitive delivery. This, theoretically, creates institutional pressure to move beyond planning and into execution; potentially accelerating the launch of the first CATO tender that the market has long anticipated.
- Fourth, growing bidder volume is an objective. NESO is incentivised to expand market participation, which should support a competitive and dynamic tender environment.

LOOKING AHEAD

The consultation on the Draft Determinations closes on 10 March 2026, with Final Determinations expected in Q1 2026/27. For organisations that have invested in CATO readiness, Expectation A.4 represents the clearest regulatory signal yet that competitive transmission delivery is moving from aspiration to implementation.

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