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**Statutory consultation on modifications to the RIIO-2 Gas Transporters licence conditions associated with the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener, and**

**Consultation pursuant to Special Condition 3.9 of the Gas Transporter licence on modifications to the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document**

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## 1. Introduction

### Scope of this consultation

1.1 We are consulting on proposed licence modifications that:

- adjust the maximum funding level up to £100m for Small Net Zero Projects under the Net Zero Pre-construction Work and Small Net Zero Projects (NZASP) Re-opener;
- implement a mechanism to return unused NZASP funding back to gas consumers; and
- ensure the same funding options are available for both National Grid Gas Transmission (NGGT) and Gas Distribution Networks (GDNs) projects under the NZASP.

1.2 To ensure consistency in the proposed licence changes, this consultation also includes associated changes to the NZASP Re-opener Governance Document.

1.3 The modifications we are proposing are set out in annexes to this consultation.

1.4 Within this document, we set out the reasons why we propose to make these changes and their intended effect.

### Context of these proposed licence changes

1.5 We are proposing changes to the following Special Conditions (SpC) for the following gas transporter licences:

- Cadent Gas Limited
- National Grid Gas Limited
- Northern Gas Networks Limited
- Scotland Gas Networks plc
- Southern Gas Networks plc
- Wales and West Utilities Limited

1.6 The proposed Special Condition (SpC) licence modifications to 1.1 and 3.9 for Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc and Wales and West Utilities Limited are identical. The modifications to the SpCs for GDNs are shown as an annex to this consultation.

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- 1.7 The proposed modifications to SpC 1.1, SpC 3.9 and SpC 6.1 for National Grid Gas Limited (NGGT) are shown separately as a draft NGGT licence in an annex to this consultation. The proposed modifications to SpC 1.1 in the NGGT is identical to the proposed GDN change.

## 2. Proposed Changes to the Gas Transporter Licence Conditions

### Section summary

We are proposing licence modifications to adjust the maximum NZASP funding level up to £100m for Small Net Zero Projects and to facilitate the recovery of unused NZASP funding back to gas consumers. This chapter explains how and why.

### Reason and effect for changes to Gas Transporter Licence

Net Zero Pre-construction Work and Small Net Zero Projects Re-opener	
Type of change	Amendment to existing licence condition
Relevant licence conditions	1.1 Interpretation and definitions: 'Small Net Zero Projects'
Relevant licensees	All Gas Transporters

- 2.1 We propose to amend the definition of a 'Small Net Zero Project' to adjust the maximum funding level to £100 million per project. The definition of 'Small Net Zero Projects' currently limits the size of projects that can go through the NZASP re-opener to a range between £2.9m and £10.7m dependent on the Materiality Threshold applicable to each specific Gas Transporter.<sup>1</sup>
- 2.2 We think that considering re-opener applications for funding projects whose value could be up to £100m aligns with the scope, and size of potential projects that we expect to see over the remainder of RIIO-2 coming through this re-opener. This will allow Ofgem to consider funding for net zero projects, including the Hydrogen Village Trials (and wider hydrogen for heat programme), required by BEIS to help inform their future decision on the role of hydrogen for heat. Increasing the size of the cap does not change our re-opener process responsibilities including ensuring that projects are in

<sup>1</sup>The cap is linked to the 'Materiality Threshold' that are set for each company in the associated definition in Special Condition 1.1 of the Gas Transporters Licence.

consumers’ interest, that costs are efficient, and consulting with stakeholders before deciding whether to fund any project. Other aspects of the definition remain unamended.

- 2.3 The effect of this amendment is to increase the maximum value of Small Net Zero Projects that can be funded through the NZASP Re-Opener up to £100 million.

Net Zero Pre-construction Work and Small Net Zero Projects Re-opener	
Type of change	Amendment to existing licence condition
Relevant licence conditions	3.9
Relevant licensees	GDNs only

- 2.4 The reason for amending this condition is to establish a mechanism to direct GDNs to return NZASP funding to gas consumers, when the NZASP funding was originally passed to them via NGGT (under SpC 6.1 of the NGGT licence).<sup>2</sup> Currently the licence condition, read in conjunction with SpC 6.1, only enables NGGT to provide GDNs with funding but not for GDNs to return it if it is unused. Therefore, we think it is in the best interests of consumers to ensure that there is a distinct mechanism in place that enables unused funding to be returned.

- 2.5 The proposed modification provide that there will be an obligation on GDNs to return unspent NZASP funding provided by NGGT and explain the process the Authority will follow when directing such changes as a result of the Re-opener. We are also proposing relevant changes to the NGGT licence, as explained in section 3 below. The NZPSt is now proposed to be the net amount transferred between NGGT and the GDNs in accordance with the amendments to Special Condition 3.9 Part A. Finally, we made changes in the structure of the condition for the purposes of clarity and administrative ease.

- 2.6 The effect of this amendment is to establish a distinct mechanism for the return of unspent money provided to the GDNs, by NGGT, through the NZASP Re-opener. In addition, the condition has been restructured.

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<sup>2</sup> Under the NZASP, we may decide that funding a GDN project via NGGT is appropriate to spread the costs across all GB gas customers instead of just a GDN’s regional customers. This may be the case where we consider that the project is delivering strong benefits for all GB customers such as learning and R&D, which can inform a national decision on the role of hydrogen heat. The most appropriate funding option will be consulted as part of the re-opener application and directed by the Authority.

### 3. Proposed Changes to the Gas Transmission Licence Conditions

#### Section summary

We are proposing licence modifications to facilitate the recovery of unused NZASP funding back to gas consumers via the NGGT Transport Owner Pass-through condition and ensure the same funding options are available for both NGGT and GDNs for NZASP projects. This chapter explains how and why.

#### Reason and effect for changes to NGGT licence

Net Zero Pre-construction Work and Small Net Zero Projects Re-opener	
Type of change	Amendment to existing licence condition
Relevant licence conditions	3.9
Relevant licensees	National Grid Gas Limited (NGGT)

- 3.1 The first reason for amending this condition is to establish a mechanism to direct Gas Distribution Networks (GDNs) to return NZASP funding to gas consumers, when the NZASP funding was originally passed to them via NGGT (under Special Condition 6.1 of the NGGT licence). Currently the licence condition only enables NGGT to provide GDNs with funding but not for GDNs to return it if it is unused. Therefore, we think it's in the best interests of consumers to ensure that there is a distinct mechanism in place that enables unused funding to be returned to consumers.
  
- 3.2 The proposed modifications to SpC 3.9 provide that there will be an obligation on NGGT to return unspent NZASP funding and explain the process the Authority will follow when directing any relevant changes under the Re-opener. . If the licensee does not spend funding provided under this Re-opener or does not comply with any conditions, the Authority may direct as appropriate a reduction to the NZPt term. Finally, we made changes in the structure of the condition for the purposes of clarity and administrative ease.
  
- 3.3 The second reason for amending this condition is to ensure that the same funding options are available for both National Grid Gas Transmission (NGGT) and Gas Distribution Networks (GDNs) projects under the NZASP. The changes we propose, introduce the ability for Ofgem to potentially treat NGGT's projects as pass-through costs funded under SpC 6.1 as well as the more 'traditional' funding route already in place within SpC 3.9 which enables funding to go into the regulatory asset base. We

think it's appropriate that similar types of projects e.g., feasibility studies can be funded in the same way for both NGGT and the GDNs.

3.4 The effect of this amendment is to:

- establish a distinct mechanism for the return of unspent money provided to the GDNs, by NGGT, through the NZASP Re-opener; and
- ensure the same funding options are available for both National Grid Gas Transmission (NGGT) and Gas Distribution Networks (GDNs) for similar types of NZASP projects.
- ensure clarity through the restructuring of the condition

Transport owner pass-through items	
Type of change	Amendment to existing licence condition
Relevant licence conditions	6.1
Relevant licensees	National Grid Gas Limited (NGGT)

3.5 The first reason for amending this condition is to establish a mechanism in the licence for NGGT to return any unspent money to consumers, that has been provided through the NZASP Re-opener (Sp.C. 3.9) and treated as a pass-through. This proposed amendment, combined with the proposed amendments to SpC 3.9 in the GDNs licences and NGGT's licence will put in place this mechanism.

3.6 The second reason for amending this condition is to ensure that the same funding options are available for both National Grid Gas Transmission (NGGT) and Gas Distribution Networks (GDNs) projects under the NZASP. The changes we propose, introduce the ability for Ofgem to potentially treat NGGT's projects as pass-through costs funded under SpC 6.1 as well as the more 'traditional' funding route already in place within SpC 3.9 which enables funding to go into the regulatory asset base. We think it's appropriate that similar types of projects e.g., feasibility studies can be funded in the same way for both NGGT and the GDNs.

3.7 The proposed modification to SpC 6.1 Part A changes the definition of the NZPS<sub>t</sub> term to mean the net amount transferred between the licensee and the Distribution Networks in accordance with SpC 6.1 Part F of the NGGT licence and SpC 3.9 of the

GDN licence, plus, in the case of projects related to the NTS, the net amount returned by the licensee under SpC 3.9 of the NGGT licence and SpC 6.1 Part F.

- 3.8 The proposed modification to SpC 6.1 Part F sets how the Authority will direct the licensee to pay to a GDN or the licensee a sum to fund in relation decisions made under SpC 3.9. This may include funding returns.
- 3.9 The effect of this amendment is to ensure that unspent money provided to the GDNs or the licensee, by NGGT, through the NZASP Re-opener can be returned to customers, ensuring a fair price is paid for the development of net zero projects. In addition, the change to SpC 6.1 part F will provide an option for NGGT to request NZASP funding via the pass through cost mechanism.

## 4. Proposed Changes to the NZASP Governance Document

### Section summary

This chapter explains the proposed modifications to the NZASP governance document, why we are proposing these changes, and their effect. This is a consultation for the purposes of Special Condition 3.9 of the Gas Transporter Licence. These changes complement the proposed licence modifications set out in the previous chapters.

### Reason and effect for changes to NZASP Governance Document

Net Zero Pre-construction Work and Small Net Zero Projects Re-opener	
Type of change	Amendment to NZASP Governance Document
Relevant licence conditions	Scope, Process and Materiality Thresholds, 2.2
Relevant licensees	All companies in the GD & GT sector

- 4.1 We are also consulting on the proposed amendment of the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document. The reasons for this are to:
  - clarify the materiality threshold for the NZASP Re-opener; and
  - to note that the funding decision now sets out how the value of any funding to be returned will be calculated.
- 4.2 The effect is to ensure that the NZASP Governance Document is aligned with the proposed modifications to the licence.



- 4.3 The proposed Governance Document changes can be found published as a subsidiary document to this consultation.
- 4.4 We propose that these changes to the Governance Document will come into effect immediately after the proposed licence changes in this statutory consultation come into effect. This will be 56 days after issuing our licence decision.
- 4.5 Any representations with respect to the proposed modifications to the Governance Document must be made on or before 7th December 2022 to: Allan Rankine, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to [Allan.Rankine@ofgem.gov.uk](mailto:Allan.Rankine@ofgem.gov.uk).
- 4.6 We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.