

**To:**  
**Cadent Gas Limited**  
**Northern Gas Networks Limited**  
**Scotland Gas Networks plc**  
**Southern Gas Networks plc**  
**Wales and West Utilities Limited**  
**National Grid Gas Plc**

**Gas Act 1986**  
**Section 23(1)(a)**

**Modification of the special conditions of the Gas Transporter licence held by the licensees listed above**

1. Each of the licensees to whom this document is addressed is the holder of a Gas Transporter Licence ('the Licence') granted or treated as granted under section 7 of the Gas Act 1986 ('the Act').
2. Under section 23(2) of the Act the Gas and Electricity Markets Authority ('the Authority')<sup>1</sup> gave notice on 07 November 2022 ('the Notice') that it proposed to amend the following existing Special Conditions:
  - Special Condition 1.1: Interpretation and definitions.
  - Special Condition 3.9: Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZP<sub>t</sub>).
  - Special Condition 6.1: Transportation owner pass-through items (PT<sub>t</sub>) – NGGT licence only.
3. We stated that any representations to the modification proposal must be made on or before 07 December 2022.
4. A copy of the Notice was sent to the Secretary of State in accordance with section 23(4)(b) of the Act, and we have not received a direction that the change should not be made.
5. We received responses from four Gas Distribution Network (GDN) companies to the Notice, which we have carefully considered. We have placed all non-confidential responses on our website. The responses were broadly supportive of the proposed changes. We here thank these parties for engaging in the consultation and have provided our response to submitted comments and suggested further amendments on the "issues log" published on our website.
6. As a result of the responses, we have determined to make minor, mainly housekeeping, changes, but this does not change the intent or effect of the modifications. The modifications to the Licence are set out in Schedule 1 with the minor changes from the consulted on proposed modifications highlighted in yellow.
7. We are making these licence modifications to:
  - 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;

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<sup>1</sup> The terms "the Authority", "we" and "us" are used interchangeably in this document.

- 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.

To ensure consistency in the licence modifications, this decision also includes associated changes to the NZASP Re-opener Governance Document. The direction for the modification of the NZASP Re-opener Governance Document, as per Part B of Special Condition 3.9., is included in Schedule 2 of this decision. The changes to the NZASP Re-opener Governance Document are included in Schedule 3.

8. The effect of the modifications will:

- adjust the maximum value of Small Net Zero Projects that can be funded through the NZASP Re-Opener up to £100 million;
- ensure that unspent money provided to the GDNs 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 for similar types of NZASP projects;
- ensure clarity through the restructuring of the condition; and
- ensure that the NZASP Governance Document is aligned with the proposed modifications to the licence.

9. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 23B of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules<sup>2</sup> requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. The attached Schedule 4 provides a list of the relevant licence holders in relation to these modifications. Section 23(10) of the Act sets out the meaning of 'relevant licence holder'.

Under the powers contained in section 23(1)(a) of the Act, we hereby modify the Special Licence Conditions of the Gas Transporter Licence of the licensees in the manner specified in Schedule 1. This decision will take effect from 29 March 2023.

This document is notice of the reasons for the decision to modify the gas transporter licences as required by section 38A of the Act.



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**Jourdan Edwards**  
**Interim Deputy Director**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**31/01/2023**

<sup>2</sup> CMA70 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/655601/energy-licence-modification-appeals-rules.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf)

# Schedule 1 – Changes to the Gas Transporter Licence Conditions

We have decided to make the following 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.

Deletions are shown in strikethrough and new text is coloured red. Changes made following the statutory consultation have been highlighted in yellow.

## Schedule 1.1 – Amendments to 1.1 Interpretation and definitions: ‘Small Net Zero Projects’

Relevant licensees: All Gas Transporters

### Chapter 1: Interpretation and definitions

#### Special Condition 1.1 Interpretation and definitions

##### Part B: Definitions

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Small Net Zero Projects means a project that: ~~would be within the scope of the Re-opener provided by~~ (a) is within the scope of paragraphs 3.6.6.(a) to (d) of Special Condition 3.6 (Net zero Re-opener and Price Control Deliverable) ~~but for failing to meet the Materiality Threshold;~~ and (b) the cost of which is less than £100m.

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## Schedule 1.2 – Amendments to existing licence condition 3.9

Relevant licensees: GDNs only

### Special Condition 3.9 Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPt)

#### Introduction

3.9.1 The purpose of this condition is to ~~calculate the term NZPt (the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener term). This contributes to the calculation of the Totex Allowance.~~ establish a Re-opener triggered by the Authority where pre-construction work or other projects have been identified that will enable support the achievement of Net Zero Carbon Targets.

~~3.9.2 The effect of this condition is to:~~

- ~~(a) establish a Re-opener for the Authority to trigger amendments to the value of NZPt; and~~
- ~~(b) require the licensee to comply with the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document.~~

3.9.2 The work or projects may be funded via the NZP<sub>t</sub> term (the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener term) in this licence or, where appropriate, for funding via all gas consumers, via a pass-through term in the NTS Operator's licence (NZPSt). The NZP<sub>t</sub> term contributes to the calculation of the Totex Allowance.

3.9.3 This condition also:

- (a) requires the licensee to comply with funding conditions and directions to return unspent funding to the NTS Operator;
- (b) requires the licensee to comply with the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document; and
- (c) explains the process the Authority will follow when:
  - i. directing any changes as a result of the Re-opener; and
  - ii. issuing or amending the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document.

**Part A: ~~What is the scope of this Re-opener?~~ The Net Zero Pre-construction Work and Small Net Zero Projects Re-opener**

3.9.4 The Authority ~~will consider directing an adjustment to the value of the NZP<sub>t</sub> term and the value of the NZPS<sub>t</sub> term in the NTS Operator's licence where in its view~~ may use this Re-opener where:

- (a) there is Net Zero Pre-construction Work or Small Net Zero Projects needed that will **enable support** the achievement of Net Zero Carbon Targets;
- (b) the Net Zero Pre-construction Work or Small Net Zero Project has caused or is expected to cause the cost of the licensee's Licensed Activity to increase during the Price Control Period; ~~and~~
- (c) the effect, or estimated effect, of the Net Zero Pre-construction Work or Small Net Zero Project on the cost of the Licenced Activity is not otherwise provided for in this licence nor under another Re-opener; and**
- (d) the effect, or estimated effect, of the Net Zero Pre-construction Work or Small Net Zero Project on the cost of Licensed Activity exceeds the materiality threshold of £1m but does not exceed £100m.**

3.9.5 The Authority may issue a direction setting out the following, where the conditions in paragraph 3.9.4 are satisfied:

- (a) the amount of funding for each Net Zero Pre-construction Work or Small Net Zero Project being provided under this Re-opener;
- (b) whether that funding is to be provided via the NZP<sub>t</sub> term in this licence or via the pass-through term NZPSt in the NTS Operator's licence or a combination of the two;
- (c) the Regulatory Years in which the funding is to be provided; and
- (d) any conditions that ~~have to be met by~~ the licensee **must comply with.**

3.9.6 The licensee must comply with any conditions set under paragraph 3.9.5(d).

3.9.7 If the licensee does not spend funding provided under this Re-opener or does not comply with any conditions set under paragraph 3.9.5(d) the Authority may direct as appropriate:

- (a) a reduction to the NZPt term; and/or
  - (b) that the licensee return, within a time period specified in the Authority's direction, funding paid to it by the NTS Operator in accordance with a direction under Part F of Special Condition 6.1 (Transportation owner pass-through items) of the NTS Operator's licence.
- 3.9.8 If the licensee does not spend funding provided via the pass-through term NZPSt in the NTS Operator's licence on Net Zero Pre-construction Work or Small Net Zero Projects as set out in a direction made under paragraph 3.9.5, the Authority may direct that the licensee returns that funding to the NTS Operator.
- 3.9.9 The licensee must comply with a direction under paragraph 3.9.7(b) and 3.9.8 to return funding to the NTS Operator.

**Part B: Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document**

- 3.9.10 The licensee must comply with the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document in relation to any Net Zero Pre-construction Work and Small Net Zero Projects funded by this Re-opener.
- 3.9.11 The Authority will issue and amend the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document by direction.
- 3.9.12 The Authority will publish the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document on the Authority's Website.
- 3.9.13 Before issuing the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document;
  - (b) the date on which the Authority intends the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document, which will not be less than 28 days.
- 3.9.14 Before amending the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document;
  - (b) the date on which the Authority intends the amended Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document to come into effect;
  - (c) the reasons for the amendments to the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document; and

- (d) a period during which representations may be made on the amendments to the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document, which will not be less than 28 days.

### **Part C: What process will the Authority follow in making a direction?**

3.9.15 Before making a direction under paragraphs ~~3.9.4~~ 3.9.5, 3.9.7 or 3.9.8 the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction.

~~3.9.16 The direction will set out:~~

- ~~(a) any adjustment to the value of the NZP<sub>t</sub> term and the Regulatory Years to which that adjustment relates;~~
- ~~(b) any conditions that have to be met by the licensee; and~~
- ~~(c) where appropriate, any adjustment that is also being made to the value of the NZPS<sub>t</sub> term in accordance with Special Condition 6.1 (Transportation owner pass-through items) of the NTS Operator's licence and the Regulatory Years to which that adjustment relates.~~

~~3.9.17 If the licensee fails to comply with a condition imposed under paragraph 3.9.11(b), the Authority will make any reduction to the NZP<sub>t</sub> term, and where relevant the NZPS<sub>t</sub> term of the NTS Operator's licence, under section 23 of the Act.~~

## **Schedule 1.3 – Amendments to existing licence condition 3.9**

Relevant licensees: National Grid Gas Limited only

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.

### **Special Condition 3.9 Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZP<sub>t</sub>)**

#### **Introduction**

3.9.1 The purpose of this condition is to ~~calculate the term NZP<sub>t</sub> (the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener term). This contributes to the calculation of the Totex Allowance.~~ **establish a Re-opener triggered by the Authority where pre-construction work or other projects have been identified that will enable support the achievement of Net Zero Carbon Targets.**

~~3.9.2 The effect of this condition is to:~~

~~(a) establish a Re-opener for the Authority to trigger amendments to the value of the NZPt; and~~

~~(b) require the licensee to comply with the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document.~~

3.9.2 The work or projects, may be funded via the NZPt term (the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener term) in this licence or, where appropriate, for funding via the pass-through NZPSt term in Special Condition 6.1 of this licence. The NZPt term contributes to the calculation of the Totex Allowance.

3.9.3 This condition also:

(a) requires the licensee to comply with funding conditions and directions to return unspent funding under Special Condition 6.1 of this licence;

(b) requires the licensee to comply with the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document; and

(c) explains the process the Authority will follow when:

i. directing any changes as a result of the Re-opener; and

ii. issuing or amending the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document.

**Part A: ~~What is the scope of this Re-opener?~~ The Net Zero Pre-construction Work and Small Net Zero Projects Re-opener**

3.9.4 The Authority ~~will consider directing an adjustment to the value of the NZPt term where in its view~~ may use this Re-opener where:

(a) there is Net Zero Pre-construction Work or Small Net Zero Projects needed that will **enable support** the achievement of Net Zero Carbon Targets;

(b) the Net Zero Pre-construction Work or Small Net Zero Project has caused or is expected to cause the cost of the licensee's Licensed Activity to increase during the Price Control Period; ~~and~~

**(c) the effect, or estimated effect, of the Net Zero Pre-construction Work or Small Net Zero Project on the cost of the Licenced Activity is not otherwise provided for in this licence nor under another Re-opener; and**

**(d) the effect, or estimated effect, of the Net Zero Pre-construction Work or Small Net Zero Project on the cost of Licensed Activity exceeds the materiality threshold of £1m but does not exceed £100m.**

3.9.5 The Authority may issue a direction setting out the following, where the conditions in paragraph 3.9.4 are satisfied:

(a) the amount of funding for each Net Zero Pre-construction Work or Small Net Zero Project being provided under this Re-opener;

(b) whether that funding is to be provided via the NZPt term in this licence or via the pass-through term NZPSt (Special Condition 6.1) in this licence or a combination of the two;

(c) the Regulatory Years in which the funding is to be provided; and

(d) any conditions that **have to be met by** the licensee **must comply with**.

- 3.9.6 The licensee must comply with any conditions set under paragraph 3.9.5(d).
- 3.9.7 If the licensee does not spend funding provided under this Re-opener or does not comply with any conditions set under paragraph 3.9.5(d) the Authority may direct as appropriate:
- (a) a reduction to the NZP<sub>t</sub> term; and/or
  - (b) that the licensee return, within a time period specified in the Authority's direction, funding paid to it in accordance with a direction under Part F of Special Condition 6.1 (Transportation owner pass-through items) of this licence.
- 3.9.8 If the licensee does not spend funding provided via the pass-through term NZPS<sub>t</sub> as set out in a direction made under paragraph 3.9.5, the Authority may direct that the licensee returns that funding.
- 3.9.9 The licensee must comply with a direction under paragraph 3.9.7(b) and 3.9.8 to return funding.

**Part B: Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document**

- 3.9.10 The licensee must comply with the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document in relation to any Net Zero Pre-construction Work and Small Net Zero Projects funded by this Re-opener.
- 3.9.11 The Authority will issue and amend the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document by direction.
- 3.9.12 The Authority will publish the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document on the Authority's Website.
- 3.9.13 Before issuing the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document;
  - (b) the date on which the Authority intends the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document, which will not be less than 28 days.
- 3.9.14 Before amending the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document;



- (b) the date on which the Authority intends the amended Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document to come into effect;
- (c) the reasons for the amendments to the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document; and
- (d) a period during which representations may be made on the amendments to the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document, which will not be less than 28 days.

**Part C: What process will the Authority follow in making a direction?**

3.9.15 Before making a direction under paragraphs ~~3.9.4~~ 3.9.5, 3.9.7 or 3.9.8 the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction.

~~3.9.16 The direction will set out:~~

- ~~(d) any adjustment to the value of the NZP<sub>t</sub> term and the Regulatory Years to which that adjustment relates; and~~
- ~~(e) any conditions that have to be met by the licensee.~~

~~3.9.17 If the licensee fails to comply with a condition imposed under paragraph 3.9.11(b), the Authority will make any reduction to the NZP<sub>t</sub> term under section 23 of the Act.~~

## **Schedule 1.4 – Amendments to existing licence condition 6.1**

Relevant licensees: National Grid Gas Limited only

We are making the following 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.

### **Special Condition 6.1 Transportation owner pass-through items (PT<sub>t</sub>)**

#### **Introduction**

- 6.1.1 The purpose of this condition is to calculate the term PT<sub>t</sub> (the transportation owner allowed pass-through term). This feeds into Calculated Revenue in Special Condition 2.1 (Transportation owner revenue restriction).
- 6.1.2 The effect of this condition is to ensure that the licensee's Allowed Revenue reflects that certain costs can be passed through to customers.

#### **Part A: Formula for calculating the transportation owner allowed pass-through term (PT<sub>t</sub>)**

6.1.3 The value of  $PT_t$  is derived in accordance with the following formula:

$$PT_t = RB_t + LF_t + EDE_t + OPTC_t + IS_t + PTV_t + Hy_t + NZPS_t$$

where:

$RB_t$  means the amount levied on the licensee in respect of the Prescribed Rates or an amount directed under Part B;

$LF_t$  means the net payments made by the licensee in respect of the NTS Transportation Owner Activity under Standard Condition 3 (Payments by the Licensee to the Authority);

$EDE_t$  means the payments in relation to the Pension Scheme Established Deficit repair expenditure for each Regulatory Year that relate to NTS Transportation Owner Activity, as further explained and elaborated upon in the GT2 Price Control Financial Handbook;

$OPTC_t$  means the payments made by the licensee to the Secretary of State in respect of Policing Costs;

$IS_t$  is derived in accordance with paragraph 6.2.3 of Special Condition 6.2 (Gas conveyed to Independent Systems);

$PTV_t$  means the PARCA Termination Value and has the value zero unless directed in accordance with Part D;

$Hy_t$  is derived in accordance with Part E; and

~~$NZPS_t$  is derived in accordance with Part F.~~ means the **sum of:**

**(a) the net amount transferred between the licensee and the Distribution Networks in accordance with Part F of this condition and Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener) of the GDN licence; plus in the case of Net Zero Pre-construction Work and Small Net Zero Projects of the licensee, the net amount returned by the licensee under Special Condition 3.9 of this licence and Part F of this condition.**

**(b) in respect of the licensee, the value directed by the Authority in accordance with paragraph 6.1.11 (b) of this condition.**

### **Part B: Review of Prescribed Rates pass-through term ( $RB_t$ )**

6.1.4 As part of any periodic revaluation, the licensee must:

- (a) engage with the Relevant Valuation Agency; and
- (b) use reasonable endeavours to minimise the amount of the Prescribed Rates to which it is liable.

6.1.5 The Authority will review the licensee's engagement with the Relevant Valuation Agency with respect to a revaluation.

6.1.6 If, after reviewing the licensee's engagement with the Relevant Valuation Agency and requesting any further information required from the licensee with respect to a particular revaluation, the Authority considers that the licensee has not complied with paragraph 6.1.4, the Authority will adjust the value of  $RB_t$  by direction.

## Part C: Not Used

## Part D: Review PARCA Termination Value pass-through term (PTV<sub>t</sub>)

- 6.1.7 If the licensee intends to pass-through a PARCA Termination Value, the licensee must send a notice to the Authority setting out the PARCA Termination Costs and the PARCA Termination Amounts received from PARCA Applicants.
- 6.1.8 If, after reviewing the licensee's notice under paragraph 6.1.7, the Authority agrees with the PARCA Termination Value it will direct the value for PTV<sub>t</sub> accordingly. If the Authority considers that an alternative adjustment should be made to the PTV<sub>t</sub> term, the Authority will direct another value for PTV<sub>t</sub>.

## Part E: Adjustment for Cadent Gas Limited's Hynet FEED study (Hy<sub>t</sub>)

- 6.1.9 The value of Hy<sub>t</sub> is derived in accordance with the following formula:

$$Hy_t = CADENT_t - ALT_t$$

where:

*CADENT<sub>t</sub>* has the value set out in Appendix 1; and

*ALT<sub>t</sub>* has the value zero unless directed otherwise by the Authority, after consulting with the licensee and Cadent Gas Limited.

- 6.1.10 The licensee must pay to Cadent Gas Limited the value of Hy<sub>t</sub> divided equally on a quarterly basis for the relevant Regulatory Year.

## Part F: ~~Adjustment for~~ The Distribution Networks' and NTS' Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPS<sub>t</sub>)

- 6.1.11 ~~The value of NZPS<sub>t</sub> is set out in Appendix 2.~~ The Authority may direct:
- (a) the licensee to pay a sum to a Distribution Network; or
  - (b) the licensee to receive a sum, in relation to decisions made under Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener) of the Distribution Network's licence or this licence. This sum, set out in Appendix 2, may be net of any returns of funding directed under Special Condition 3.9 of the Distribution Network's licence or this licence.
- 6.1.12 ~~The licensee must pay the relevant Distribution Network the amounts specified in Appendix 2 divided equally on a quarterly basis for the relevant Regulatory Year, or in such other instalments as agreed between the licensee and the relevant Distribution Network.~~ The Authority may make a direction under paragraph 6.1.11 where:
- (a) the funding for Net Zero Pre-construction Work or Small Net Zero Projects is being provided as a result of the operation of the Re-opener established by Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener) of the Distribution Network's licence or this licence; and
  - (b) the Net Zero Pre-construction Work or Small Net Zero Project is to be funded via all gas consumers.

- 6.1.13—The Authority may amend Appendix 2 by direction, as a result of an application under Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener) of a Distribution Network’s licence, after consulting with the licensee and the relevant Distribution Network. Before making a direction under paragraph 6.1.11, the Authority will publish on the Authority’s Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction.
- 6.1.14 Where applicable, the licensee must pay the relevant Distribution Network the amounts specified in Appendix 2 divided equally on a quarterly basis for the relevant Regulatory Year, or in such other instalments as agreed between the licensee and the relevant Distribution Network.
- 6.1.15 The Authority may amend Appendix 2 by direction, as a result of an application under Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener) of a Distribution Network’s licence or this licensee, after consulting with the licensee and/or the relevant Distribution Network.

### Appendix 1

#### Payments related to Cadent’s Hynet FEED study (£m)

Licensee/Regulatory Year	2021/22	2022/23	2023/24	2024/25	2025/26
Cadent Gas Limited	4.05	4.05	4.05	0.00	0.00

### Appendix 2

#### Net Licensee Funding and Payments to Distribution Networks for Net Zero Pre-construction Work and Small Net Zero Projects (£m)

Distribution Network/Regulatory Year	2021/22	2022/23	2023/24	2024/25	2025/26
N/A	0.00	0.00	0.00	0.00	0.00

Network/Regulatory Year	2021/22	2022/23	2023/24	2024/25	2025/26
Cadent Gas Limited	0.00	3.38	0.00	0.00	0.00
National Grid Gas Limited	0.00	0.00	0.00	0.00	0.00
Northern Gas Networks Limited	0.00	5.74	0.00	0.00	0.00
Scotland Gas Networks plc	0.00	13.36	7.92	2.50	0.00
Southern Gas Networks plc	0.00	0.00	0.00	0.00	0.00
Wales and West Utilities Limited	0.00	0.00	0.00	0.00	0.00

# Schedule 2 – NZASP Governance Document Direction

## Direction under Part B of Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener) to issue the Net Zero Pre-construction and Small Net Zero Projects Re-opener Governance Document

1. Each of the companies to whom this direction is addressed is the holder of a licence granted or treated as granted under section 7 of the Gas Act 1989
2. In accordance with paragraph 3.9.5 of Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener), on 07 November 2022 the Gas and Electricity Markets Authority (“the Authority”) published on its website the text of the proposed Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance and stated that representations must be made on or before 07 December 2022.
3. We received responses from four Gas Distribution Network (GDN) companies, which we have carefully considered. We have placed all non-confidential responses on our website. Our responses to these comments are set out in the issues log, which can be found alongside this publication.
4. We have made one change to the proposed text as a result of the consultation responses, with our reasons set out in the issues log. The tracked changes to the NZASP Governance Document are included in schedule 3 of this notice.
5. The reason for this direction is to give effect to our decision to issue a Governance document which set outs the arrangements for the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZASP), as required by Part B of Special Condition 3.9. The effect of these changes will be to adjust the maximum funding level up to £100m for NZASP Projects and implement a mechanism to return unused NZASP funding back to gas consumers.
6. This direction is our notice of reasons for the purposes of section 38A of the Gas Act 1986.
7. Now the Authority pursuant to the provisions of Special Condition 1.1 (Interpretation and definitions) and Special Condition 3.9 hereby directs that the Net Zero Pre-construction Work and Small Net Zero Projects Governance is issued and will have effect from 29 March 2023.



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**Jourdan Edwards**  
**Interim Deputy Director**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

31/01/2023

## Schedule 3 – Changes to the NZASP Governance Document

We have decided to make the following NZASP Governance Document 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.

Deletions are shown in strikethrough and new text is coloured red. Minor housekeeping changes made following the statutory consultation have been highlighted in yellow.

The modifications to the NZASP governance document complement the licence modifications set out above.

Relevant licensees: All Gas Transporters

### Schedule 3.1 – Compliance

1.5 Network licensees are required to comply with this governance document in accordance with ~~SC 3.9.5~~ **SC 3.9.3**.

### Schedule 3.2 – Scope and Eligible Projects

- 2.2 The NZASP has a broad scope. Some examples of projects that may fall under the NZASP include:
- early development, design and general pre-construction work that will enable the achievement of Net Zero Carbon Targets<sup>3</sup>;
  - Front-End Engineering Design (FEED) studies, conceptual design pre-FEED and general feasibility work required for large capital projects;
  - Net Zero projects that exceed the £2m materiality cap of the Net Zero and Re-opener Development use-it-or-lose-it allowance (NZARD UIOLI) or are otherwise not suitable for the NZARD UIOLI; **and**
  - ~~Net Zero projects that do not meet the materiality<sup>4</sup> threshold for the Net Zero Re-opener; and~~
  - Net Zero facilitation (green Gas and hydrogen) projects and hydrogen projects that are required as part of the Department for Business, Energy & Industrial Strategy Hydrogen Grid Research and Development Programme, including projects that may be interpreted as innovative –

<sup>3</sup> As defined in Special Condition 1.1 of the Gas Transporter Licence's held by National Grid Gas plc and the Gas Distribution Networks.

<sup>4</sup> ~~The materiality threshold for each network licensee is defined in Special Condition 1.1 of the Gas Transporter Licences.~~

where there is a clear need and it is appropriate for network consumers to fund.

### **Schedule 3.3 – Materiality Threshold**

2.4 The materiality threshold for this re-opener is £1m per project. Licensees may not achieve this threshold by aggregating different types of projects.

2.5 The materiality threshold may be met through anticipated costs.

2.6 For Small Net Zero Projects, the funding provided per project under the NZASP may not exceed the total of £100m.

### **Schedule 3.4 – Funding Decision**

2.20 At the end of the project, Ofgem will expect a close-down report from the network licensee setting out how it has met the conditions and any instances of under or non-delivery. Under or non-delivery may be permissible subject to a well reasoned justification from the network licensee. **The Licensee may also set out well reasoned justifications for the return of some contributions where the licensee has met all project conditions at a lower than expected cost, for example a material efficient underspend or halting a project early.** Where Ofgem determines the network licensee has been unable to justify under or non-delivery, it may consider that some of the funding should be returned to consumers. In this case, Ofgem may adjust the funding awarded following the process provided in Special Condition 3.9.

2.21. As part of our funding decision we may also:

- Require network licensees to share knowledge in a way which is broadly consistent with the NIA and SIF mechanisms;
- Socialise approved funding across all consumers through issuing a direction under Special Condition 6.1 of the National Grid Gas Transporter licence.
- **Set out how the value of any funding to be returned will be calculated.**

2.22 We may consider whether further licence changes are needed to support different regulatory treatments under this re-opener in relation to each project, for example to:

- ~~To~~ direct a different split between upfront funding and longer-term fund (through the regulatory asset value);
- Apply the Totex Incentive Mechanism to socialised costs; or
- Use a Price Control Deliverable.



## **Schedule 4 – list of the relevant licence holders in relation to these licence modifications**

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