

To: All interested parties

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

Modification of the Special Conditions of the gas transporter licences held by the licensees listed in paragraph 1 below (the 'Licensees')

1. The following licensees are holders of a Gas Transporter Licence ('the Licence') granted or treated as granted under section 7 of the Gas Act 1986 ('the Act'): Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc, Wales and West Utilities Limited (the 'Licensees').
2. Under section 23(2) of the Act, the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 7 February 2025 ('the Notice') that we propose to modify the Special Conditions ('SpC') of the Licence by amending SpC 3.18 (Tier 1 Stubs Repex Policy Re-opener (STUB_r))². We stated that any representations to the modification proposal must be made on or before 7 March 2025.
3. 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.
4. We received two responses to the Notice, from Cadent Gas Limited and SGN (Scotland Gas Networks plc and Southern Gas Networks plc), which we carefully considered. We have placed these responses on our website. Respondents were supportive of our proposals, therefore no major alternations have been made. The modifications to the Licence are set out in Schedules 1-5 of this decision.
5. We are making these licence changes to enable associated allowances from the Tier 1 Stubs Repex Policy Re-opener mechanism to be subject to a Price Control Deliverable ('PCD') as set out in our Final Determinations.³
6. It is necessary to make a minor alteration to the modifications set out in the Notice. These alterations are shown in yellow highlight in the attached Schedule 5. The reasons for any differences between the modifications set out in the Notice and the modifications reflected in Schedule 5 are to correct a minor numerical error, and is not substantive in nature. Our proposals erroneously included funding associated with on-site assessments (£6.26m) to the PCD which did not align with our Final Determinations, as only the funding for stubs remediations (£14.58m) would be subject to the PCD.
7. 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 5.6 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules⁴ 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

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

² [Proposed modifications to Special Conditions 1.1 and 3.18 of the gas transporter licences: statutory consultation | Ofgem](#)

³ [RIIO-2 Tier 1 Stubs Repex Policy Re-opener Final Determinations 2025 | Ofgem](#)

⁴ CMA70 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

5.2. The attached Schedule 6 provides a list of the relevant licence holders in relation to this modification. Section 23(10) of the Act sets out the meaning of 'relevant licence holder'.

8. Under the powers contained in section 23(1)(a) of the Act, we hereby modify the special conditions of the gas transporter licence held by the Licensees in the manner specified in attached Schedules 1-5. This decision will take effect from 30 May 2025.
9. 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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Pete Wightman
Duly authorised on behalf of the
Gas and Electricity Markets Authority

3 April 2025

Schedule 1: Common modifications to 1.1.16 in Special Condition 1.1 held by Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc, Wales and West Utilities Limited.
(New text is double underscored)

Chapter 1: Interpretation and definitions

Special Condition 1.1 Interpretation and definitions

Part B: Definitions

1.1.16

Price Control Deliverable	means the outputs, delivery dates and associated allowances in Special Conditions 3.2 to 3.4, 3.6, 3.7, 3.10 to 3.13, <u>3.18</u> , 3.25 to 3.31 and 9.12.
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Schedule 2: Common modifications to Special Condition 3.18 in the licences held by Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc, Wales and West Utilities Limited.

(New text is double underscored and text removed is struck through)

Special Condition 3.18 Tier 1 Stubs Repex policy Re-opener (STUB_t)

Introduction

3.18.1 The purpose of this condition is to calculate the term STUB_t (the Tier 1 Stubs Re-opener term). This contributes to the calculation of the Totex Allowance.

3.18.2 The effect of this condition is to

(a) specify any Price Control Deliverable relating to Tier 1 Stubs Repex Policy developments;

(b) establish a Re-opener to be triggered by the licensee where the licensee incurs costs relating to the decommissioning of Tier 1 Stubs during the Price Control Period;

(c) provide for an assessment of the Price Control Deliverable specified in this condition.

3.18.3 This condition also explains the process that the Authority will follow when directing any changes as a result of the Re-opener.

Part A: What is the scope of this Re-opener Formula for calculating the Tier 1 Stubs Repex Policy term (STUB_t)

~~3.18.4 The licensee may apply to the Authority for a direction:~~

~~(a) adjusting the value of the STUB_t term;~~

~~(b) amending the values in Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable); or~~

~~(c) amending the values in Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable)~~

~~for any Regulatory Year during the Price Control Period where the licensee incurs costs relating to the decommissioning of Tier 1 Stubs, which the licensee considers have been efficiently incurred and where those costs have not already been provided for by the special conditions of this licence.~~

3.18.4 The value of STUB_t is derived in accordance with the following formula:

$$STUB_t = STUBO_t - STUBRO_t$$

Where:

STUBO_t means the sum of allowances in Appendix 1; and

STUBRO_t has the value zero unless otherwise directed by the Authority in accordance with Part D.

Part B: ~~When to make an application~~ What is the licensee funded to deliver

~~3.18.5~~ The licensee may only apply to the Authority for an adjustment under paragraph 3.18.4:

- ~~(a) Between 25 January 2023 and 31 January 2023; and~~
- ~~(b) during such later periods as the Authority may direct.~~

3.18.5 Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances associated with those outputs.

Part C: ~~How should an application be made?~~ Tier 1 Stubs Repex policy Re-opener

3.18.6 The licensee may apply to the Authority for a direction:

- (a) adjusting the value of the STUB_t term;
- (b) amending the values in Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable); or
- (c) amending the values in Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable)

for any Regulatory Year during the Price Control Period where the licensee incurs costs relating to the decommissioning of Tier 1 Stubs, which the licensee considers have been efficiently incurred and where those costs have not already been provided for by the special conditions of this licence.

3.18.7 The licensee may only apply to the Authority for an adjustment under paragraph 3.18.4:

- (a) Between 25 January 2023 and 31 January 2023; and
- (b) during such later periods as the Authority may direct.

~~3.18.68~~ An application under paragraph 3.18.4~~6~~ must be made in writing to the Authority and must:

- (a) specify the additional costs relating to the decommissioning of Tier 1 Stubs;
- (b) give justification for the needs case of the proposal;
- (c) give engineering and cost justifications for the set of technical solutions for replacing Tier 1 Stubs;
- (d) provide detailed cost estimates for replacing the volumes included in the application supported by market assessment and cost scoping of materials, labour and equipment;
- (e) set out a proposed project timeline for replacing the volumes proposed in the application;
- (f) set out any amendments to the outputs, delivery dates or allowances in the Special Condition 3.10 or 3.11 that the licensee is requesting;
- (g) set out the adjustments to the value of the STUB_t term that the licensee is requesting, and the Regulatory Years to which that adjustment relates;

- (h) explain the basis of the calculation for the proposed adjustments to the STUB_t term or the allowances in the Special Condition 3.10 or 3.11; and
- (i) include such detailed supporting evidence including cost benefit analysis, impact assessments and engineering justification statements, as is reasonable in all the circumstances.

3.18.79 An application must:

- (a) be confined to costs that are incurred or are expected to be incurred on or after 1 April 2021; and
- (b) take account of any allowed expenditure which can be avoided as a result of the changes.

3.18.10 The following modifications to the licence may be made under this Re-opener:

- (a) modifications to the outputs, delivery dates and allowances in Appendix 1; and
- (b) modifications to the outputs, delivery dates and allowances in other special conditions of this licence.

3.18.11 Any modifications made under this Re-opener will be made under section 23 of the Act.

Part D: What process will the Authority follow in making a direction? Assessment of the Price Control Deliverable (STUBRO_t)

3.18.12 The authority will, in accordance with the assessment principles set out in Part A of Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements), consider directing a value for STUBRO_t where the licensee has not Fully Delivered an output in Appendix 1.

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

~~3.18.8~~13 Before making a direction under paragraph 3.18.46 ~~or 3.18.12~~, 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, which will not be less than 28 days.

~~3.18.9~~14 A direction under paragraph 3.18.6 will set out

- (a) any adjustments to the value of the STUB_t term
- (b) any amendments to Special Conditions 3.10 or 3.11; and
- (c) the Regulatory Years to which any adjustments to allowances under sub-paragraphs (a) and (b) relate.

3.18.15 A direction under paragraph 3.18.12 will set out:

- (a) the delivery status of the output that has not been Fully Delivered;
- (b) the value of the STUBRO_t term and the Regulatory Years to which that adjustment relates; and

- (c) the methodology and data that has been used to decide the delivery status and value of any adjustments to the STUBRO_t term.

Appendix 1

Tier 1 Stubs Repex Policy Price Control Deliverable Projects

<u>GDN</u>	<u>Field</u>	<u>Description</u>

Tier 1 Stubs Repex Policy Price Control Deliverable allowances by Regulatory Year (£m)

<u>GDN</u>	<u>Output</u>	<u>Delivery date</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Total</u>

Schedule 3: Modifications to Special Condition 3.18 in the licence held by Scotland Gas Networks plc.

Appendix 1

Tier 1 Stubs Repex Policy Price Control Deliverable Projects

<u>GDN</u>	<u>Field</u>	<u>Description</u>
<u>Sc</u>	<u>Projects</u>	<p><u>Total RIIO-GD2 allowance of £1.58m</u></p> <ul style="list-style-type: none"> • <u>£1.16m baseline allowance</u> • <u>£0.42m re-opener allowance</u> <p><u>152 stubs to be remediated over RIIO-GD2 with an average unit cost allowance of £10,395/stub.</u></p>

Tier 1 Stubs Repex Policy Price Control Deliverable allowances by Regulatory Year (£m)

<u>GDN</u>	<u>Output</u>	<u>Delivery date</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Total</u>
<u>Sc</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.00</u>	<u>0.00</u>	<u>0.14</u>	<u>0.14</u>	<u>0.14</u>	<u>0.42</u>

Schedule 4: Modifications to Special Condition 3.18 in the licence held by Southern Gas Networks plc.

Appendix 1

Tier 1 Stubs Repex Policy Price Control Deliverable Projects

<u>GDN</u>	<u>Field</u>	<u>Description</u>
<u>So</u>	<u>Projects</u>	<p><u>Total RIIO-GD2 allowance of £4.05m</u></p> <ul style="list-style-type: none"> • <u>£2.53m baseline allowance</u> • <u>£1.52m re-opener allowance</u> <p><u>225 stubs to be remediated over RIIO-GD2 with an average unit cost allowance of £18,000/stub.</u></p>

Tier 1 Stubs Repex Policy Price Control Deliverable allowances by Regulatory Year (£m)

<u>GDN</u>	<u>Output</u>	<u>Delivery date</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Total</u>
<u>So</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.00</u>	<u>0.00</u>	<u>0.17</u>	<u>0.50</u>	<u>0.85</u>	<u>1.52</u>

Schedule 5: Modifications to Special Condition 3.18 in the licence held by Cadent Gas Limited.

Appendix 1

Tier 1 Stubs Repex Policy Price Control Deliverable Projects

<u>GDN</u>	<u>Field</u>	<u>Description</u>
<u>EoE</u>	<u>Projects</u>	<u>449 stubs to be remediated with a average unit cost allowance of £9,400/stub</u>
<u>Lon</u>	<u>Projects</u>	<u>175 stubs to be remediated with an average unit cost allowance of £9,400/stub</u>
<u>NW</u>	<u>Projects</u>	<u>482 stubs to be remediated with an average unit cost allowance of £9,400/stub</u>
<u>WM</u>	<u>Projects</u>	<u>445 stubs to be remediated with an average unit cost allowance of £9,400/stub</u>

Tier 1 Stubs Repex Policy Price Control Deliverable allowances by Regulatory Year (£m)

<u>GDN</u>	<u>Output</u>	<u>Delivery date</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Total</u>
<u>EoE</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.28</u>	<u>1.17</u>	<u>0.82</u>	<u>0.98</u>	<u>0.98</u>	<u>4.22</u>
<u>Lon</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.01</u>	<u>0.11</u>	<u>0.66</u>	<u>0.49</u>	<u>0.38</u>	<u>1.65</u>
<u>NW</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.52</u>	<u>0.62</u>	<u>0.72</u>	<u>1.33</u>	<u>1.33</u>	<u>4.53</u>
<u>WM</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.02</u>	<u>0.71</u>	<u>0.43</u>	<u>1.66</u>	<u>1.36</u>	<u>4.18</u>

Schedule 6: Relevant Licence Holders⁵

Cadent Gas Limited

Northern Gas Networks Limited

Scotland Gas Networks plc

Southern Gas Networks plc

Wales and West Utilities Limited

⁵ [List of all gas licensees including suppliers | Ofgem](#)