

Governance

Biomethane Use It Or Lose It (UIOLI) Governance Document - Draft

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This document is published as a working draft. It is subject to development and amendment. It should not form the basis of any expectation or reliance

This document is for Gas Transporter licensees (Gas Distribution Networks, “GDNs” and National Gas Transmission plc (“National Gas”) and provides information relating to their expenditure under the Biomethane use it or lose it (“UIOLI”) allowance. It introduces the Biomethane UIOLI, and explains eligible expenditure and reporting requirements.

The Biomethane UIOLI is an uncertainty mechanism in RIIO-GD3 and RIIO-GT3. In RIIO-GD3, it provides funding for Biomethane Distributed Entry Reinforcement Activities for costs incurred by the GDNs due to new or existing Biomethane entry capacities. In RIIO-GT3, it funds total expenditure costs of Biomethane Connections onto the National Transmission System (“NTS”) for which no support has been received under the current Green Gas Support Scheme (“GGSS”) closing to new applications in March 2028.

This document is version 1 of the Biomethane UIOLI Governance Document issued by the Authority under both Special Condition 3.21 Biomethane Distributed Entry Reinforcement (BDER_t) use it or lose it allowance of the GDNs’ Gas Transporter Licence and Special Condition 3.15 Biomethane use it or lose it allowance (BIOct) of National Gas’ Gas Transporter Licence. It will take effect from 1 April 2026, for the RIIO-3 Price Control Period.

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1. Introduction

Biomethane

- 1.1 Unless otherwise stated, the definitions below are consistent with Chapter 1 of the GDNs' Gas Transporter Licence and/or with Chapter 1 of National Gas' Gas Transporter Licence.
- 1.2 Biomethane means a gas as defined in the technical standard IGEM/TD/16.
- 1.3 Biomethane Connections means connections of biomethane plants onto the NTS to inject non-fossil source of energy, produced from biogas, derived from organic waste.
- 1.4 Biomethane Distributed Entry Reinforcement are physical works undertaken by a GDN to modify or extend its existing network assets in order to provide a sustained increase in network capacity necessary to enable or accommodate Biomethane injection, beyond the assets required solely for the direct connection of the Biomethane facility.

Gas Distribution

- 1.5 In our RIIO-GD3 Final Determinations, we decided to introduce a Biomethane UIOLI allowance to provide funding for the GDNs for Biomethane Distributed Entry Reinforcement required to address capacity constraint issues associated with Biomethane Connections.¹
- 1.6 This document sets out submission requirements under Special Licence Condition 3.21 of the GDNs' Gas Transporter Licence.
- 1.7 Under Special Condition 3.21, Ofgem will direct a Use It Or Lose It Adjustment where it considers one appropriate.

Gas Transmission

- 1.8 In our RIIO-GT3 Final Determinations, we decided to introduce a Biomethane UIOLI allowance to provide funding to National Gas for the costs incurred (both opex and capex costs) in connecting biomethane plants onto the NTS.

¹ In this document we use the terms, 'Ofgem' and 'the Authority' as well as the terms 'we', 'us' and 'our' interchangeably. Ofgem is the Office of the Gas and Electricity Markets. The Authority is the Gas and Electricity Markets Authority and is the governing body of Ofgem, consisting of non-executive and executive members.

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- 1.9 This document sets out submission requirements under Special Licence Condition 3.15 of National Gas Transmission plc's Gas Transporter Licence.
- 1.10 Under Special Condition 3.15, Ofgem will direct a Use It Or Lose It Adjustment where it considers one appropriate.

Audience and Publication

1.11 This document should be read by:

- The GDNs, as the owners and operators of the distribution networks;
- National Gas, as the owner and operator of the NTS; and
- Any stakeholders with an interest in new or existing Biomethane Connections onto the low, medium or high pressure tier networks.

1.12 The Authority will issue and amend the Biomethane UIOLI Governance Document in accordance with Special Conditions 3.21 and 3.15. This document will be published on the Authority's website.

1.13 As provided by Special Conditions 3.21 and 3.15, in the Regulatory Year commencing on 1 April 2027, the Authority may review the licensees' management of Biomethane. This may include a review concerning the Use It Or Lose It Adjustments, caps for individual connections, and the Governance Document.

1.14 In the case of any changes to the cap level, we will have regard to the GDNs' Connection Charging Methodologies and any time required by the GDNs to make consequent changes. If this cap level differs from that in the Connection Charging Methodology, the new cap specified will take precedence.

Compliance

1.15 The licensees must comply with this Biomethane UIOLI Governance Document when incurring expenditure in relation to the allowance and when claiming under their respective allowances.

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- 1.16 This document in no way relieves affected parties, including the licensees, from the responsibility to ensure ongoing compliance with legislation including competition, data protection, environment and consumer protection laws.

2. Eligible Expenditure

Eligibility Criteria

- 2.1 This section sets out the criteria that the GDNs and National Gas must meet in order to be eligible for their Biomethane UIOLI allowances.
- 2.2 For the avoidance of doubt, the below eligibility criteria do not apply for the Decarbonisation Project Development (DPD) UIOLI. If the DPD UIOLI is erroneously used to fund any of the types of work that are eligible under the ‘Allowable Biomethane UIOLI Expenditure’ section of this chapter, we reserve the right to claw back the associated funding.

Gas Distribution

- 2.3 To be eligible for the allowance, GDNs must have a connection offer in place with the party seeking a Biomethane Connection.
- 2.4 If we find that a project does not meet the requirements set out in this document, we reserve the right to claw back the associated funding.

Gas Transmission

- 2.5 To be eligible for the allowance, National Gas must submit proof of a signed Gas Construction Agreement (“GCA”) with the biomethane plant.
- 2.6 If we find that a project does not meet the requirements set out in this document, we reserve the right to claw back the associated funding.

Allowable Biomethane UIOLI Expenditure

- 2.7 This section sets out the specific types of work that are eligible under the Biomethane UIOLI allowances, which constitute “allowable Biomethane UIOLI expenditure”.

Gas Distribution

- 2.8 The Biomethane UIOLI allowance must be used to cover the costs of Biomethane Distributed Entry Reinforcement incurred to facilitate Biomethane Connections to the distribution network, or to increase capacity for existing Biomethane Connections.

Governance Biomethane Use It Or Lose It (UIOLI) Governance Document - Draft**2.9 “Allowable Biomethane UIOLI expenditure” for Gas Distribution includes:**

- Ongoing operating expenditure associated with Biomethane Distributed Entry Reinforcement;
- Capital expenditure associated with Biomethane Distributed Entry Reinforcement, net of customer charges levied in accordance with the Connection Charging Methodology statement;
- Costs incurred in relation to:
 - Pipelines;
 - Compressors;
 - Pressure management; and
 - Storage; and
- Costs incurred in relation to NTS offtake metering for low flow.

Gas Transmission

2.10 The Biomethane UIOLI allowance must be used to cover the network connection costs of biomethane plants connecting onto the NTS.

2.11 “Allowable Biomethane UIOLI expenditure” for Gas Transmission includes:

- Operational expenditure to conclude a Network Entry Agreement (NEA), including:
 - Early funding to cover desk-based research and design, comparison of different options and development of project plans;
 - Development of feasibility studies, risk assessments and establishing a needs case;
 - Detailed technical design and engineering development of the connection;
 - Work required to secure planning consent for the project, including planning consultations, legal costs, and planning applications;

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- Associated customer and stakeholder engagement, including Local Area Energy Planning; and
- Costs of responding to an initial inquiry, producing a Biomethane Connection offer, costs of applying for and preparing the required planning and environmental permits, and other costs incurred in the process of finalising a NEA.
- Capital expenditure to enable physical connection of Biomethane onto the NTS. This may include costs of compression, valves, pipework etc., or any other expenditure that National Gas has incurred in the process of connecting a biomethane plant onto the NTS.

Unrecoverable Biomethane UIOLI Connections Expenditure

2.12 This section sets out the types of work that are not included in the Biomethane UIOLI allowances, which constitute “unrecoverable Biomethane UIOLI expenditure”.

Gas Distribution

2.13 “Unrecoverable Biomethane UIOLI expenditure” for Gas Distribution includes:

- Expenditure not in accordance with the GDN’s current approved Connection Charging Methodology;
- Biomethane Distributed Entry Reinforcement not described in paragraph 2.8; and
- Expenditure above the cap stated in Special Condition 3.21 for a single connection or above the allowance stated in its Appendix 1 overall. Where the GDN’s current approved Connection Charging Methodology would otherwise permit recovery of costs above that cap, this requirement shall take precedence over any obligation for the GDN to comply with its Connection Charging Methodology.

Gas Transmission

2.14 “Unrecoverable Biomethane UIOLI expenditure” for Gas Transmission includes:

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- Streamlining of Biomethane Connections processes, production of standardised offers for Biomethane Connections or other internal PM processes;
- Expenditure above the cap stated in Special Condition 3.15 for a single connection or above the allowance stated in its Appendix 1 overall; and
- Connection of a Biomethane plant in receipt of GGSS funding.

3. Annual Regulatory Reporting Requirements

3.1 The Regulatory Instructions and Guidance (“RIGs”) sets out all the Regulatory Reporting Pack (“RRP”) requirements for the licensees.

Gas Distribution

- 3.2 GDNs must not record costs in RRP before a connection offer is in place. We expect the customer to pay for costs upfront before a connection offer.
- 3.3 After the connection offer is in place, if the project does not result in a completed and usable Biomethane Connection, the GDNs’ customer is expected to pay fully; the GDNs must have contractual language related to securities with biomethane plants. In the case of no completion, GDNs should remove any costs out of RRP. This should be done in an adjustment line to show clarity.
- 3.4 GDNs must report on and recover costs for any individual Biomethane Connections for which the connection offer occurs in RIIO-GD3.
- 3.5 GDNs must not record any costs in RRP above the allowances per Biomethane Connection specified in Special Condition 3.21. Where the costs reported per Biomethane Connection in a given Regulatory Year are lower than the cap provided, we will make downward adjustments to the actual spend levels at closeout.

Gas Transmission

- 3.6 National Gas must not record costs in RRP before a GCA is in place. We expect the customer to pay for costs upfront before a GCA.

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- 3.7 After the GCA is in place, if the project does not result in a completed and usable Biomethane Connection, National Gas' customer is expected to pay fully; National Gas must have contractual language related to securities with biomethane plants. In the case of no completion, National Gas should remove any costs out of RRP. This should be done in an adjustment line to show clarity.
- 3.8 National Gas must report on and recover costs for any individual Biomethane Connections for which the GCA occurs in RIIO-GT3.
- 3.9 National Gas must not record any costs in RRP above the allowances per Biomethane Connection specified in Special Condition 3.15. Where the costs reported per Biomethane Connection in a given Regulatory Year are lower than the cap provided, we will make downward adjustments to the actual spend levels at closeout.