

# Guidance

## Decarbonisation Project Development UIOLI Governance Document

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### Overview:

This governance document is for the ~~Net Zero and Re-opener~~RIIO-3 Decarbonisation Project Development ~~Fund~~ Use It Or Lose It allowance (“~~NZARD(DPD~~ UIOLI”), referred to under Special Condition 3.5 of the ~~Electricity Transmission Licence and the~~ Gas Transporter Licence. The ~~purpose of the NZARD UIOLI is to enable Network Licensees to fund small Net Zero facilitation projects, and also to allow for early development work on projects that network companies intend to bring forward at a later stage through other~~ DPD UIOLI was previously named the ~~Net Zero and Reopener Development (DPD) UIOLI in RIIO-2~~ Net Zero-related mechanisms.

~~This Governance Document. It~~ sets out the detailed arrangements for this allowance, including scope and maximum spend available. ~~Network Licensees~~The gas distribution networks (GDNs) and National Gas are required to comply with this document under their ~~NZARD~~DPD UIOLI licence condition.



## Context

~~In December 2020, we published our Final Determinations<sup>†</sup> for the RIIO-2 price control for the Electricity Transmission (ET), Gas Distribution (GD) and Gas Transmission (GT) sectors for 2021 to 2026. This included our approach to uncertainty around developments during the price control period in respect of Net Zero.~~

~~To enable necessary development work on Net Zero projects and the progression of low-regret Net Zero facilitation capital projects for the gas sector, we introduced the Net Zero and Re-opener Development Fund use-it-or-lose-it allowance (“NZARD UIOLI”).~~

~~This followed feedback that our uncertainty mechanisms framework as set out at Draft Determinations left a funding gap for the early development work that Network Licensees need to do on projects that they may bring forward through re-openers. Respondents also highlighted that there was a funding gap for very small Net Zero facilitation projects in the gas sectors that may be low in materiality but high in impact and consumer value.~~

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<sup>†</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>.

~~See Chapter 8 of the RIIO-2 Final Determinations Core Document for specific information on the NZARD Fund UIOLI.~~

## **1. Introduction**

### **The Net Zero and re-opener development allowance**

~~1.1. The NZARD UIOLI is a RIIO-2 fund designed to enable small gas Net Zero facilitation capital projects and to allow early development work on projects that network companies may bring forward under the following re-openers:~~

- ~~ET, GT, and GD Net Zero Re-opener~~
- ~~GT and GD only Net Zero Pre-construction and Small Projects Re-opener (NZASP)~~
- ~~GD only Heat Policy re-opener, and New Large Load Re-opener (if Net Zero related)~~
- ~~ET only Medium Sized Investment Projects (MSIP) Re-opener~~

~~1.2. The NZARD Licence Condition provides the following total allowances for Network Licensees:~~

- ~~NGET £16.0m~~
- ~~SHET £12.0m~~
- ~~SPT £12.0m~~
- ~~Cadent £19.8m~~
- ~~NGN £4.5m~~
- ~~SGN £10.8m~~
- ~~WWU £4.7m~~
- ~~NGGT £8.3m~~

~~1.1. These allowances are available to be spent over the price control period. The Network Licensee can manage the profile of its spending, so it does not need to spend its total allowance equally over each year of the price control.~~

### **NZARD UIOLI Governance Document**

~~1.3. This document is the NZARD UIOLI Governance Document issued under Special Condition 3.5 of the Electricity Transmission and Gas Transporter licences (the "NZARD~~

~~Licence Condition"). It sets out the regulation, governance and administration of the  
NZARD UIOLI.~~

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.

Defined terms are capitalised throughout the text, with the definitions set out in Chapter 4.

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## 1. Introduction

### **The Decarbonisation Project Development UIOLI**

1.21.1 The DPD UIOLI is a RIIO-3 allowance for the gas distribution (GD) and gas transmission (GT) sectors. It is designed to enable small decarbonisation projects, including shrinkage-related activities, regulated through the RIIO price control framework and early development work for projects that gas network companies intend to bring forward under the following re-openers:

- GT and GD – Decarbonisation and Environmental Policy (DEP) Re-opener, Small Decarbonisation Projects (SDP) Re-opener; and
- GD only – Heat Policy Re-opener and New Large Load Connections Re-opener.

1.2 The DPD UIOLI Licence Condition provides the following total allowances for Network Licensees:<sup>2</sup>

- Cadent - £35.68m
- NGN - £8.30m
- SGN - £19.99m
- WWU - £8.90m
- National Gas - £18.13m

1.3 These allowances are available to be spent over the price control period. The Network Licensee can manage the profile of its spending, so it does not need to spend its total allowance equally over each year of the price control.

## **Compliance**

1.31.4 Network Licensees are required to comply with this governance document in accordance with Special Condition 3.5 in the Gas Transporter License and Electricity Transmission Licence.

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<sup>2</sup> These allowances are subject to change prior to the publication of the finalised DPD UIOLI Governance Document for RIIO-3.

## **Review**

**1.41.5** Ofgem may from time to time, following consultation with Network Licensees and other interested parties, revise this **NZARDDPD** UIOLI Governance Document in accordance with Part B of Special Condition 3.5.

## **Related Publications**

[Modifications to the RIIO-3 licences and associated documents | Ofgem](#)

## 2. Allowable NZARDDPD UIOLI Expenditure

### Section summary

This chapter sets out the specific types of work that can be funded via the DPD UIOLI, which constitute 'allowable DPD expenditure' in accordance with Part B of Special Condition 3.5 of the Gas Transporter Licence, in addition to any restrictions on Network Licensees using the allowance (ie 'unrecoverable DPD expenditure').

2.1 Expenditure under the NZARDDPD UIOLI allowance may be incurred in relation to two broad areas:

- small Net Zero facilitation capital~~decarbonisation~~ projects ~~in the GD, including shrinkage reduction activities; and GT sectors; and~~
- early development work ~~on for~~ projects that network ~~Licensees~~~~companies~~ intend to bring forward under ~~specified~~~~decarbonisation~~ re-openers<sup>3</sup> ~~across the ET, GD and GT sectors.~~

~~1.4. This chapter sets out the specific types of work that are included under the above areas, which constitute 'allowable RDF expenditure'<sup>4</sup> and any restrictions on Network Licensees using the allowance.~~

2.2 The use of this fund does not involve an up-front process of Ofgem approving projects, however, if Ofgem finds that a project does not meet the requirements set out in this document, we reserve the right to claw back the associated funding.

### **Small Net Zero facilitation capital~~decarbonisation~~ projects (GD and GT only)**

#### Eligible Activities

2.3 The NZARDDPD UIOLI allowance may be used to fund low and no regret ~~capital~~ projects in the GD and GT sectors that have a high Net Zero~~decarbonisation~~ impact but are not captured by other mechanisms.

<sup>3</sup> As per paragraph 1.1 in this document

<sup>4</sup> As per Special Condition 3.5.8 (a) in the Electricity Transmission Licence and Gas Transporter Licence

2.4 ‘Low regret’ in this context recognises that whilst there is significant uncertainty that surrounds the future of the gas networks, there are some areas the GD and GT sectors can invest in which hold relatively low policy risks – and there is a certainty of outcomes, with clear evidence of the need and benefit for consumers.

2.5 Low and no regret projects are those which do not expose consumers to material stranding risk due to uncertainty in ~~Great Britain’s~~<sup>GB’s</sup> pathways to decarbonisation, particularly in heat. This may be because the project itself has low materiality or is part of a business-as-usual upgrade (for example companies selecting a slightly higher cost option when replacing an asset to help future-proof the network for decarbonisation).

2.6 This governance document does not provide an exhaustive list of all eligible projects. However, eligible activities could include:

- Shrinkage-related activities (see below);
- Regional Energy Strategic Plan (RESP) related activities for GD only (see below);
- coordination and engagement activities that support the development of Local Area Energy Plans for GD only; and
- charging infrastructure for zero emissions vehicles can also be funded via the DPD UIOLI.

### Shrinkage-related activities

2.7 GDNs and National Gas may use the DPD UIOLI to fund shrinkage-related activities.<sup>5</sup> Any project that seeks to reduce shrinkage can be considered a small decarbonisation facilitation project and funded using the DPD UIOLI as long as it adheres to paragraph 2.18.

2.8 GDNs may also use DPD UIOLI funding for Advanced Leakage Detection (ALD) which is:

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<sup>5</sup> As decided in paragraph 6.43 of our RIIO-3 Final Determinations Overview Document: RIIO-3 Final Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem

- not already funded through baseline allowances or other funding mechanisms; and
- required to support the rollout of the Digital Platform for Leakage Analytics (DPLA) in RIIO-GD3.

2.9 National Gas may use the re-opener to fund ALD if it efficiently reduces its fugitive emissions.

**Strategic planning activities (including RESP-related activities) – GD only**

2.10 A decision is expected in early 2026 for the GDNs' RESP licence obligation (LO).

This LO will require the GDNs to support the National Energy System Operator (NESO) in developing the RESP, while the requirements for how the GDNs must use RESP outputs will be set out in the RIIO-GD4 Sector Specific Methodology Decision.

2.11 In January 2026, NESO published the transitional RESP (tRESP). The tRESP is focused on electricity distribution and does not have direct implications for GDN planning. We outlined the scope of the tRESP in an open letter in February 2025.<sup>6</sup> While the tRESP is not designed for GD planning, the GDNs may perceive it has implications for their investment plans. If the GDNs consider changes are justified based on the tRESP, these would need to be submitted and assessed through uncertainty mechanisms such as the SDP Re-opener.

2.12 The full RESPs will be published later in RIIO-GD3. Gas planning in the RESPs will outline a five-year time delay to allow the RESP to inform the RIIO-GD4 price control. This will drive development which responds to, rather than precedes, changes in demand. However, if the GDNs consider in-period changes are required to their RIIO-GD3 investment plans based on the RESPs, these would also need to be submitted and assessed through uncertainty mechanisms such as the SDP Re-opener.

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<sup>6</sup> Scope of the transitional Regional Energy Strategic Plan | Ofgem

2.13 GDNs may use the DPD UIOLI for coordination and engagement activities with stakeholders for the development of any net zero-related strategic planning.

2.14 This includes funding RESP-related activities.<sup>7</sup> Any RESP-related activities funded via the DPD UIOLI must be:

- in preparation for RESP outputs; or
- for the purposes of coordination and engagement to inform the RESPs with the NESO which is producing the RESPs; or
- for associated stakeholder engagement with Ofgem or other relevant stakeholders to inform the RESPs; or
- for in-period changes to RIIO-GD3 investment plans based on the RESPs.

2.15 This includes, where necessary and strictly for this purpose, the funding of any activity that is demonstrably, and in an efficient manner, preparing the GDNs for outputs made by the RESPs. For example, the cost of engagement with NESO or research to ensure that the GDNs are prepared for the outputs made by the RESPs.

2.16 The GDNs may use the DPD UIOLI to fund full-time equivalent resources where necessary and strictly for the purposes set out in paragraph 2.14. However, the DPD UIOLI should not be used to fund any activity that may be unnecessarily duplicative of the work undertaken by NESO in developing the RESPs. Any application that contains activity we consider unnecessarily duplicative will be rejected.

2.17 We expect GDNs to work with us to ensure that their RESP-related activities are not unnecessarily duplicative and are strictly necessary prior to funding them via the DPD UIOLI. If they do fund these areas using the DPD UIOLI and we deem them to be unnecessarily duplicative, we will claw back the associated funding through the UIOLI mechanism.

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<sup>7</sup> As decided in paragraph 6.43 of our RIIO-3 Final Determinations Overview Document.

### Ineligible activities (unrecoverable DPD expenditure)

2.62.18 GD and GT Network Licensees should not use the ~~NZARDDPD~~ UIOLI for ~~Net Zero decarbonisation~~ facilitation ~~capital~~ projects that are expected to cost more than £~~2m~~2.5m. Such projects can instead be brought forward under other regulatory mechanisms, such as the ~~Net Zero pre-construction and small Projects Re-opener (“NZASP”)~~SDP Re-opener which is available to both the GD and GT sectors.

2.19 The DPD UIOLI cannot be used to fund activities that have already been funded through other price control mechanism(s) or baseline allowances.

2.20 The DPD UIOLI cannot be used to fund any of the eligible activities outlined in the ‘Allowable Biomethane UIOLI Expenditure’ section of the Biomethane UIOLI Governance Document. Additionally, the costs associated with the DPD UIOLI must be for network activities. The GDNs and National Gas must not use the DPD UIOLI for the development and innovation of vehicles, gas production or activities downstream of the meter.

### Hydrogen projects

2.21 GD and GT Network Licenses should not use the DPD UIOLI to fund hydrogen-related projects, except:

- where these adhere to paragraph 2.18; **and**
- the funding is used for GDN activities to roll out hydrogen blending following a government decision to enable the implementation of hydrogen blending into the GD network; or
- the funding is used for National Gas activities to roll out hydrogen blending following a government decision to enable hydrogen blending into the GT network; or
- the funding is used to support activities associated hydrogen heating arising from a government heat policy decision to use hydrogen for domestic heating.

2.22 The costs associated with the DPD UIOLI must be for network activities. The GDNs and National Gas must not use the DPD UIOLI for the development and innovation of vehicles, gas production or activities downstream of the meter.

### Project registration

2.72.23 Where Network Licensees use their NZARD DPD UIOLI allowance for net zero facilitation capital projects, a common proforma must be used ~~=which licensees must develop and agree with us.~~ This common proforma may evolve over time and Ofgem may require changes to be made.

### **Early development work**~~(GD, GT and ET)~~

2.82.24 Gas Network Licensees may need to undertake early development work on a project prior to submitting a full funding request through a re-opener, but it may not have been funded to do so elsewhere in the price control. In such instances, the NZARD DPD UIOLI may be used for early development work, for re-openers such as the SDP Re-opener, the Decarbonisation and Environmental Policy Re-opener or the Heat Policy Re-opener. Early development work could include:

- Front End Engineering Design (FEED) studies. This could include early desk-based research and design, comparison of different options and development of project plans.
- Pre-FEED work. This can also include risk assessment and establishing a needs case.
- Detailed technical design and engineering development of the chosen option.
- Work required to secure planning consent for the project, including planning consultations, wayleaves, legal costs, and planning applications.
- ~~Associated customer and stakeholder engagement, including Local Area Energy Planning.~~

NZARD

2.92.25 **DPD UIOLI** expenditure in relation to early development work should not exceed £~~2m~~<sup>2.5m</sup> per project. This will ensure that the total allowance can be used across a variety of potential projects, and that the Network Licensee's ~~NZARD~~<sup>DPD</sup> UIOLI is never exhausted on one project (which would be especially detrimental to consumers if that project didn't ultimately progress). Where £~~2m~~<sup>2.5m</sup> is not sufficient to cover all costs associated with early development work, Network Licensees may use the relevant RIIO-~~23~~<sup>2</sup> re-openers.<sup>8</sup> Approval of such requests will not be guaranteed and will be subject to the relevant re-opener process.

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<sup>8</sup> As per paragraph 1.1 in this document

### 3. Annual regulatory reporting for ~~NZARDDPD UIOLI~~ projects

**1.5.1.1.** The reporting requirements for each Network Licensees' ~~NZARDDPD UIOLI~~ expenditure are set out in ~~Condition B15 (Regulatory Instructions and Guidance)~~ of the ~~Electricity Transmission Licence Standard Conditions, and~~ Condition A40 (Regulatory Instructions and Guidance) of the Gas Transporter Standard Licence Condition.

**1.6.1.2.** For GD and GT there are additional reporting requirements as per paragraph 2.23~~2.7~~ of this document.

## 4. Definitions

Any terms used in this document and not defined below will have the same meaning as defined in Special Condition 1.1 of the ~~Electricity Transmission Licence and the Gas Transporter Licence~~.

### *Heat Policy Re-opener*

Means the re-opener described in Special Condition 3.~~1914~~ in the Gas Transporter Licence ~~(Heat Policy and energy efficiency. This re-opener). Created exists~~ to respond to policy decisions on the future of gas and heat.

### *Medium Sized Investment Projects (MSIP) re-opener*

~~Means the re-opener described in Special Condition 3.14 in the Electricity Transmission Licence. An annual RIO-ET2 re-opener which allows ETOs to bring forward funding requests for sub £100m projects across a range of different areas, most of which are driven by third parties.~~

### *The ~~Net Zero and Re-opener~~ Decarbonisation Project Development use it or lose it UIOLI allowance*

Means the allowance described in Special Condition 3.5 in ~~both the Electricity Transmission Licence and the Gas Transporter Licence (Net Zero and Re-opener Development Fund use it or lose allowance).~~

### *~~Net Zero Pre-construction and Small Decarbonisation~~ Projects Re-opener*

Means the Re-opener described in Special Condition 3.~~94~~ in the Gas Transporter Licence ~~(Net Zero Pre-construction Work and Small Net Zero Projects Re-opener).~~ Created to capture pre-construction work and small value Net Zero facilitation projects.

### *~~Net Zero~~ Decarbonisation and Environmental Policy Re-opener*

Means the re-opener described in Special Condition 3.6 in ~~both the Electricity Transmission Licence and the Gas Transporter Licence. Created This re-opener exists~~ to allow changes in policy, the role of the network companies, as well as technological or market changes to be reflected in company allowances.

### *Network Licensee*

Means the holder of an Electricity Transmission Licence or a Gas Transporter Licence, regulated through the RIIO price control framework.

*New Large Load Re-opener*

The re-opener described in Special Condition 3.~~2216~~ in the Gas Transporter Licence. ~~Created~~This re-opener exists to increase baseline allowances to fund specific network reinforcement driven by the connection of large loads and gas producers.

## Send us your feedback

We are keen to receive your feedback about this guidance. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this guidance?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Do you have any further comments?

Please send your feedback to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk).