

## Guidance

# Small Decarbonisation Projects Re-opener Governance Document

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This governance document is for the Small Decarbonisation Projects (SDP) Re-opener, referred to under Special Condition 3.4 of the Gas Distribution Licence and Gas Transmission Licence. It sets out the SDP Re-opener's arrangements for the gas distribution networks (GDNs) and National Gas – including details on its scope, process, and materiality thresholds.

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.

In this document 'network licensee' means the holder of a Gas Distribution Licence or a Gas Transmission Licence, regulated through the RIIO price control framework.

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## Contents

<b>Introduction.....</b>	<b>4</b>
The Small Decarbonisation Projects Re-opener .....	4
Compliance.....	4
Review .....	4
Related Publications .....	5
<b>Scope, Materiality Thresholds and Process .....</b>	<b>6</b>
Scope .....	6
Materiality Threshold.....	10
Process.....	10
<b>Send us your feedback .....</b>	<b>16</b>
<b>Check your document (delete before publishing).....</b>	Error! Bookmark not defined.

## 1. Introduction

### **The Small Decarbonisation Projects Re-opener**

- 1.1. The Small Decarbonisation Projects (SDP) Re-opener, introduced in RIIO-2 as the cross-sector Net Zero Pre-construction Work and Small Projects Re-opener, is an Authority-only triggered mechanism for the gas sector only.
- 1.2. It exists to allow gas distribution (GD) and gas transmission (GT) network licensees to undertake early design or developmental work that relates to decarbonisation, small decarbonisation projects, and decarbonisation facilitation projects related to green gas (namely biomethane), shrinkage-related activities, and (for GD only) Regional Energy Strategic Plan (RESP) coordination and the roll out of the Digital Platform for Leakage Analytics.
- 1.3. The use of the re-opener may be because the projects:
  - do not meet the materiality or scope requirements of other RIIO-3 uncertainty mechanisms; and/or
  - are not captured by the RIIO-3 innovation mechanisms.

### **Compliance**

- 1.4. Network licensees are required by the SDP Re-opener licence condition (Special Condition 3.4 in both the Gas Distribution Licence and Gas Transmission Licence) to comply with this document as if it formed part of their licence.

### **Review**

- 1.5. Ofgem may from time to time, following consultation with network licensees and other interested parties, revise this SDP Re-opener Governance Document in accordance with the SDP Re-opener licence condition.

## **Related publications**

- [Link to RIIO-3 licence decision publication]

## Scope, materiality thresholds and process

### Section summary

This section outlines the scope for the SDP Re-opener, including its Authority-only trigger, broad coverage and materiality thresholds, alongside the process before and after the re-opener is triggered.

## Scope

1.6. The SDP Re-opener is an Authority-only triggered re-opener. It has a broad scope, including:

- early design or developmental work that relates to decarbonisation, which can include material front end engineering design (FEED) studies, conceptual design pre-FEED and general feasibility work required for larger capital projects;
- small decarbonisation projects that are too material to be eligible for the Decarbonisation Project Development use-it-or-lose-it allowance (DPD UIOLI) but not material enough, or appropriate for the DEP Re-opener or Heat Policy Re-opener;
- small decarbonisation projects related to green gas, shrinkage-related activities, and (for GD only) the roll out of the Digital Platform for Leakage Analytics and Regional Energy Strategic Plan (RESP) coordination; or
- small decarbonisation projects that may be interpreted as innovative, where there is a clear need, it is appropriate for natural gas consumers to fund them, and they are not captured through the RIIO-3 innovation mechanisms.

1.7. We may, over time, update the detailed scope of this re-opener in accordance with the SDP Re-opener licence condition, if required.

### *Shrinkage-related activities*

1.8. The SDP Re-opener can be used to fund shrinkage-related projects.

- 1.9. Northern Gas Networks (NGN), SGN and Wales and West Utilities (WWU) may use the SDP re-opener to fund the roll out of the Digital Platform for Leakage Analytics (DPLA). We expect these GDNs to roll out the DPLA in year three of RIIO-GD3, therefore these GDNs must agree an appropriate timeline with us for triggering the re-opener for this purpose.
- 1.10. The GDNs may also use the SDP Re-opener to fund additional ALD. For example, when the materiality of this additional ALD exceeds the maximum spend per project for the DPD UIOLI. We expect NGN, SGN and WWU to survey the entirety of their low pressure (LP) and medium pressure (MP) networks at least once by the time business plans are submitted for RIIO-GD4. We consider it important for all GDNs to have surveyed their entire LP and MP networks at least once in RIIO-GD3 to inform our development of a Shrinkage ODI-F in RIIO-GD4. The GDNs must agree an appropriate timeline with us for triggering the re-opener for this purpose.
- 1.11. National Gas may use the re-opener to fund ALD if it efficiently reduces its fugitive emissions.

*Regional Energy Strategic Plans (RESP) coordination and engagement – GD only*

- 1.12. 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.
- 1.13. In January 2026, the 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>1</sup> While the tRESP is not designed for GD planning, the GDNs may perceive it has

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<sup>1</sup> [Scope of the transitional Regional Energy Strategic Plan | Ofgem](#)

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.

- 1.14. 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.
- 1.15. GD network licensees may use the SDP Re-opener for coordination and engagement activities with stakeholders for the development of any net zero-related strategic planning.
- 1.16. Any RESP-related activities funded via the SDP Re-opener 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.
- 1.17. This includes, where necessary and strictly for this purpose, the funding of any activity that is demonstrably, and in an efficient manner, preparing the gas distribution networks (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.
- 1.18. The GDNs may use the SDP Re-opener to fund full-time equivalent resources where necessary and strictly for the purposes outlined in paragraph 1.16.

However, the SDP Re-opener 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.

*Zero Emissions Vehicles (ZEVs)*

1.19. Given that National Gas is not included in the Operational Transport Emissions Reduction Price Control Deliverable (PCD), it could utilise this re-opener to fund its purchase or lease of ZEVs. The GDNs may also use this re-opener to increase their rollout of ZEVs, however only under the scenario that their PCD allowance has been exhausted.

*Ineligible projects*

1.20. GDNs and National Gas must not use the SDP Re-opener to fund hydrogen-related projects, except where:

- 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
- for National Gas, the funding is used on activities to roll out hydrogen blending following a government decision to enable hydrogen blending into the GT network, and for the GDNs, any downstream impacts of such a decision; or
- the funding is used to support activities associated with hydrogen heating arising from a government heat policy decision to use hydrogen for domestic heating.

1.2 The costs associated with the SDP Re-opener must be for network activities. The GDNs and National Gas must not use the SDP Re-opener for the development and innovation of vehicles, gas production or activities downstream of the meter.

1.3 The GDNs and National Gas must not use the SDP Re-opener for any activities that are eligible for funding via the Biomethane Connections UIOLI.<sup>2</sup>

## **Materiality threshold**

1.21. The materiality threshold for this re-opener is £1m per project and there is a project maximum of £100m. Network licensees cannot achieve the materiality threshold by aggregating different types of projects. The materiality threshold can be met through anticipated costs.

1.22. For small decarbonisation projects, the funding provided per project under the SDP Re-opener may not exceed the total of £100m.

## **Process**

1.23. There is a wide spectrum of projects and work that may come through this re-opener where applying a rigid, uniform process may not be appropriate.

1.24. To achieve agility where needed, we need robust engagement, the aim of which is to agree in principle the needs case for an investment before the re-opener is triggered.

1.25. The key elements of the re-opener process are illustrated in Table 1 below.

### **SDP Re-opener contributions**

1.26. Where a potential SDP Re-opener project is substantially innovation related (for example, it could also be eligible for funding under either the Strategic Innovation Fund or Network Innovation Allowance), a contribution should be considered. We expect companies to follow a similar approach to that set out in the Strategic

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<sup>2</sup> [Link to the Biomethane Connections UIOLI Governance Document]

Innovation Fund governance document in considering whether a contribution to the project should be provided:

- the default level of expected contribution is 10% for substantially innovative projects
- network licensees can justify higher or lower contributions as appropriate for a specific project, based on considerations such as levels of risk and financial benefit.

1.27. For example, network licensees may suggest a lower contribution where they do not expect to financially benefit from a project or a higher contribution to account for the extent of non-network benefits that the project has the potential to deliver.

1.28. Contributions can be made from the network licensee or third parties involved in the project and can include benefits-in-kind.<sup>3</sup> This can include funding from government where there is a contractual commitment and the contribution is directly related to activities being funded by Ofgem.

1.29. In some cases, we may consider whether it is appropriate to confirm our expectations for the level of the contribution in the pre-trigger Engagement Phase of the SDP Re-opener Process, following engagement with the network licensee. Based on this, the network licensee should then confirm the contribution it proposes to make towards its project within its application.

**Table 1: The SDP Re-opener process**

*Before Authority Trigger: Engagement Phase*

<b>Step</b>	<b>Purpose</b>
Engagement	Continuous engagement to understand the project need and establish a needs case, in principle:

<sup>3</sup> This includes any non-cash benefit (eg resources/services) of monetary value that are provided for the delivery of the project by project partners.

	<ul style="list-style-type: none"> <li>• What is being proposed</li> <li>• The project cost;</li> <li>• The aim of the project and evidence that it fits into wider strategic goals;</li> <li>• Why it is appropriate for this to be funded by network consumers and through this re-opener, and how the funding should be treated from a regulatory point of view; and</li> <li>• The timelines for the project including its anticipated length and the submission dates for the detailed assessment phase (see below).</li> </ul> <p>This Engagement Phase will be informed, and developed, over time through engagement with the relevant stakeholders, including network licensees and government.</p>
Information gathering	<p>A process to draw out key information above and any additional information to help establish the needs case.</p> <p>Where appropriate, Ofgem will provide guidance on structures and templates for this information.</p>

*After Authority Trigger: Assessment Phase*

Step	Purpose
Licensee application	<p>For funding to be provided under the NZASP re-opener, the network licensee will need to submit an application to us.</p> <p>Unless otherwise specified, the licensee application will include:</p> <ul style="list-style-type: none"> <li>• A detailed needs case;</li> <li>• Detailed cost information, including a cost-benefit analysis, which itself will include the proposed regulatory treatment of the costs;</li> <li>• An engineering justification paper; and</li> </ul>

	<ul style="list-style-type: none"> <li>• A policy justification paper, which explains why an adjustment to allowances is justified and how the project aligns with overall strategic aims.</li> </ul> <p>Through the Engagement Phase, specific proformas for the above may be developed and requested to be used by us.</p>
Consultation	Based on the characteristics of the project we will determine whether a formal consultation is appropriate and the length of time. This is in addition to the required consultation on the proposed funding decision.
Funding decision	The Authority makes a funding decision and directs the relevant changes. This will include a decision on the regulatory treatment of approved funding.

1.30. The two steps in the Engagement Phase above will be informed and developed over time, through engagement with the relevant stakeholders, including network licensees and government.

1.31. Where appropriate, guidance associated with this will be published on our website, including terms of reference and proforma to support engagement and ongoing information gathering.

*Consultation*

1.32. Under the Assessment Phase of the project, we will endeavour to take a proportionate approach to assessing the project to make quick decisions where this is appropriate. Some of the matters we will consider are:

- the materiality of the work or project;
- the complexity of the work or project;
- how the work or project aligns with strategic policy aims; and
- whether or not our funding decision is precedent setting.

1.33. Ofgem's general approach to managing all RIIO-3 re-opener application assessments in a proportionate way will be set out in a separate guidance

document. This document includes further information on how we will manage the applications pipeline and how we will assess applications in a proportionate way, including indicative timescales. This document should be read in conjunction with this further guidance.

*Funding decision*

1.34. We will engage network licensees throughout on the potential regulatory treatment of the approved funding, and:

- Prior to a funding decision being made, we will consult on the proposed funding decision. This will include any draft conditions to hold licensees to account for specific project deliverables, such as evidence to be reported to Ofgem or milestones that may require Ofgem approval before the project can progress further.
- Once the consultation is published, Ofgem will engage with the network licensee on the wording of the draft conditions and may make clarifications or amendments as a result of the engagement.
- 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 3.4.

1.35. As part of our funding decision, we may also:

- Require network licensees to share knowledge in a way which is broadly consistent with the RIIO-3 innovation funding 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.
- 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:
  - adopt ‘project directions’ in a similar manner to the Network Innovation Allowance (NIA) to record and hold licensees to account for specific deliverables;
  - direct the appropriate split between upfront funding and longer-term funding (through the Regulatory Asset Value or RAV); and/or
  - apply the Totex Incentive Mechanism (TIM); and/or
  - socialise approved funding across all consumers.
- If the licence is amended, we would expect to amend this governance document to provide further information on the regulatory treatment options under this re-opener.

## 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).