

# Guidance

## Draft GT2/GT3 Crossover Submission Requirements and Guidance Document

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### Overview

This document is aimed at National Gas Transmission plc (for the purposes of this document National Gas Transmission, NGT or the licensee) as well as its stakeholders.

The purpose of this document is to set out the general principles, methodologies and processes that the Authority will use when assessing the need for, the timing of, and the value of, any amendments to GT2/GT3 Crossover adjustments as set out in Special Condition 3.28 of the Gas Transporter licence. It also sets out requirements in relation to applications and other submissions by NGT that are required to support the Authority's assessments.

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# 1. Introduction

- 1.1 This chapter sets out the background to the GT2/GT3 Crossover Submission Requirements and Guidance Document.
- 1.2 This document is issued by the Authority in accordance with Special Condition 3.28 of the Gas Transporter licence. This document applies exclusively to National Gas Transmission plc.
- 1.3 As part of our decision to modify the Special Conditions of the Gas Transporter licence held by NGT we decided to create a GT2/GT3 Crossover adjustments mechanism through which we may adjust RIIO-GT3 allowances and, where appropriate, create new RIIO-GT3 outputs, for GT2/GT3 Crossover Items, which are outputs, deliverables or activities that are funded in full or part by a RIIO-GT2 mechanism and where NGT efficiently incurs expenditure in the RIIO-GT3 period.
- 1.4 This document sets out:
  - Definitions and scope of coverage of adjustments to allowances under the GT2/GT3 Crossover adjustments mechanism.
  - The general principles that the Authority will have regard to when making amendments to allowances under the GT2/GT3 Crossover adjustments mechanism.
  - The timing and format of requests by the licensee for an amendment to allowances under the mechanism.
  - The details of information required to be provided by the licensee to the Authority to support a request for amendment to allowances.
  - The Authority's process and timing for making amendments to any allowances.
- 1.5 This document is to be read in conjunction with the following documents:
  - Special Conditions of the Gas Transporter licence as they stood on 31 March 2026 and any Associated Documents (ADs) issued in accordance with those conditions.
  - Special Conditions of the Gas Transporter licence (current) and ADs (other than this document) issued in accordance with those conditions.
  - RIIO-GT3 Price Control Financial Handbook.
  - RIIO-GT3 Final Determinations.
  - The Gas Act, 1986 ('the Act').
- 1.6 Before directing any amendment to the GT2/GT3 Crossover Submission Requirements and Guidance Document, Ofgem will publish on its website:
  - the text of the amended GT2/GT3 Crossover Submission Requirements and Guidance Document;

- the date on which the Authority intends the amended GT2/GT3 Crossover Submission Requirements and Guidance Document to come into effect;
- the reasons for the amendments to the GT2/GT3 Crossover Submission Requirements and Guidance Document; and
- the period during which representations may be made on the amendments to the GT2/GT3 Crossover Submission Requirements and Guidance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

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

## 2. Definitions and scope of coverage of adjustments to allowances

This chapter sets out the definitions and scope of coverage of adjustments to allowances under the GT2/GT3 Crossover adjustments mechanism.

2.1 Through our price control determinations, we set:

- outputs to reflect the attributes of network service quality that are of most value to current and future consumers; and
- price control allowances for the relevant price control period that reflect our view of the efficient cost of delivering those outputs.

2.2 Our RIIO-GT2 price controls covered the period from 1 April 2021 to 31 March 2026, and our RIIO-GT3 price controls will cover the period from 1 April 2026 to 31 March 2031.

2.3 We recognise that the periodic price control review process is not aligned with the way in which licensees undertake activities required to deliver their outputs. There are circumstances in which the delivery of price control outputs or deliverables set for one price control period may involve the TOs efficiently incurring expenditure in subsequent periods.

2.4 The purpose of the GT2/GT3 Crossover adjustments mechanism is to provide an explicit route for the Authority to provide funding to National Gas Transmission for efficiently incurred expenditure on GT2/GT3 Crossover Items as defined in Special Condition 3.28 of the RIIO-GT3 licences.

2.5 The provisions of the Special Condition 3.28 GT2/GT3 Crossover adjustments are complementary to the process for closing out the RIIO-GT2 price control ('close out'), the methodology for which will be set out separately by Ofgem. The GT2/GT3 Crossover adjustments mechanism is intended to act as a backstop, providing a route for the Authority, where necessary and at its discretion, to remunerate efficiently incurred expenditure on qualifying items.

### Definition of an GT2/GT3 Crossover Item

2.6 An GT2/GT3 Crossover Item is defined in Gas Transporter licence. This definition includes outputs, Price Control Deliverables (PCDs) or activities that are funded in part or in full by a RIIO-GT2 mechanism and where the licensee has efficiently incurred (or will incur) expenditure in the RIIO-GT3 period.

2.7 This definition can include PCDs, both evaluative and mechanistic and Use it or lose it (UIOLI) mechanisms.

## **Scope of adjustments under the GT2/GT3 Crossover adjustments mechanism**

- 2.8 Special Condition 3.28 of the RIIO-GT3 licence specifies two criteria (of which at least one must be met) for making adjustments to allowances.
- 2.9 The first is the part-funding criterion. We may make an adjustment to allowances under the GT2/GT3 mechanism if the funding provided by a RIIO-GT2 mechanism for an GT2/GT3 Crossover item was only intended to cover part of the efficient cost of delivering the item in full and there is no other mechanism in the licence as in force at the time of the amendment that could otherwise fund the remaining efficient cost of the GT2/GT3 Crossover item.
- 2.10 For example, this might be the case where an output was due to be delivered during the RIIO-GT3 period, with expenditure expected to be incurred in both the RIIO-GT2 and RIIO-GT3 periods, and funding provided by the relevant mechanism in the RIIO-GT2 licence only covered costs expected to be incurred in the RIIO-GT2 period. In such circumstances, we may use the GT2/GT3 Crossover adjustments mechanism to provide funding for efficient costs incurred or expected to be incurred in the RIIO-GT3 period.
- 2.11 The second is the RIIO-GT2 close out criterion. We may make an adjustment to allowances under the GT2/GT3 mechanism if adjustments to allowances made through the provisions specified under Special Condition 7.2 Transportation owner legacy AIP Adjustment term ( $LADJ_t$ ) or Special Condition 7.6 System operator legacy adjustments ( $SOLADJ_t$ ) of the licence would result in (or are expected to result in) a negative adjustment to allowances for a GT2/GT3 Crossover item such that the efficient cost of delivering the item is no longer fully remunerated as originally intended.
- 2.12 For example, this might be the case where an evaluative PCD set as part of the RIIO-GT2 price control (with a delivery date in the GT2 period) is delayed and is now expected to be delivered in Year 3 of the RIIO-GT3 period. The assessment of PCD delivery, carried out in accordance with SpC 9.3 of the GT2 licence, might result in the PCD being assessed as not fully delivered, leading to a reduction in allowances to account for the non-delivery through the GT2 close out process. If the PCD is delivered in full after the close out process has been completed, and we consider that delivery of the PCD would still be beneficial to consumers, we may decide to reverse the reduction through an GT2/GT3 Crossover adjustment.
- 2.13 When making a decision on adjustments to funding or outputs relating to a GT2/GT3 Crossover item, we will consider whether there are alternative mechanisms in the GT3 licence that could be used instead of the GT2/GT3 Crossover adjustments mechanism, e.g. the Compressor emissions Price Control

Deliverable (SpC 3.10). Where a suitable alternative mechanism is identified, we will consider the specific circumstances of the GT2/GT3 Crossover item in making a decision on the appropriate mechanism to use.

- 2.14 We do not intend to use the GT2/GT3 Crossover adjustments mechanism to provide funding to remunerate NGT for costs incurred in the GT2 period for outputs or PCDs that were not created during the GT2 period.
- 2.15 Notwithstanding the above, and for the avoidance of doubt, nothing in Special Condition 3.28 of the RIIO-GT3 licence restricts our ability to make changes to allowances specified in Appendix 1 and Appendix 2 or to introduce or amend outputs or deliverables in Appendix 3 and Appendix 4 in any event by modifying the licence using our powers under S23 of the Act if we consider such changes to be necessary.
- 2.16 We provide further information and guidance on our intended approach to the GT2/GT3 Crossover adjustments in Chapter 5.



### 3. General principles for GT2/GT3 Crossover adjustments

This chapter sets out the general principles that the Authority will have regard to when making adjustments to allowances under the GT2/GT3 Crossover adjustments mechanism.

3.1 When considering whether to make an adjustment to allowances, and the value of that adjustment, the Authority will have regard to the following principles.

- **Seamless transition.** We will aim to ensure that the transition from the RIIO-GT2 to RIIO-GT3 does not create unnecessary barriers to, or disincentives for, the efficient operation of the gas transportation network or the efficient and timely delivery of outputs, deliverables or activities by NGT.
- **Appropriate remuneration of efficient costs.** We will aim to ensure that any shortfalls in funding for efficient costs associated with an GT2/GT3 Crossover item created as a consequence of the transition from the RIIO-GT2 to the RIIO-GT3 price control are appropriately remunerated.
- **No undue benefit to NGT from delaying work into RIIO-GT3.** We will aim to ensure that NGT does not unduly benefit from delaying delivery of GT2/GT3 Crossover items into RIIO-GT3. This may include re-profiling past or future allowances and the transfer of allowances from the RIIO-GT2 period to the RIIO-GT3 period, to better align with actual delivery dates.
- **Accountability for delivery.** NGT will normally be held accountable for meeting outputs, deliverables, targets or delivery dates associated with GT2/GT3 Crossover items that are specified in the RIIO-GT2 licence. Where necessary, we will create new outputs, deliverables, targets and delivery dates in the RIIO-GT3 licence to support this. A decision by us to make adjustments under this mechanism does not imply our endorsement of any actions taken by NGT in relation to the GT2/GT3 Crossover item.
- **Negative adjustments and clawback of RIIO-GT2 allowances.** Where appropriate and in line with these principles, GT2/GT3 Crossover adjustments could be negative and could have the effect of clawing back allowances associated with the GT2/GT3 Crossover item.

## 4. Approach to determining GT2/GT3 Crossover adjustments

This chapter sets out further guidance on the approach that the Authority intends to take when making adjustments to allowances under the GT2/GT3 Crossover adjustments mechanism.

4.1 The table below provide further information and guidance on our intended approach to the GT2/GT3 Crossover adjustments. The examples provided in this table are for illustrative purposes only, and any adjustments made under the GT2/GT3 Crossover adjustments mechanism will be made in accordance with the provisions set out in SpC 3.28.

Type of RIIO-GT2 mechanism	Intended approach to GT2/GT3 Crossover adjustments
<b>NARM Outputs</b>  SpC 3.1 Baseline Network Risk Outputs (NARMt and NARMAHt)	<p>In some circumstances, the delivery of RIIO-GT2 NARM outputs may be delayed into the GT3 period.</p> <p>In such circumstances, and depending on the extent of delay, the RIIO-GT2 NARM close out process may result in a downward funding adjustment through the NARM Funding Adjustment and Penalty Mechanism (FAPM).</p> <p>If the RIIO-GT2 NARM output is subsequently delivered after the NARM FAPM assessment is complete, and the Authority considers that the delivery is still beneficial for consumers despite the delay, the Authority may use the GT2/GT3 Crossover adjustments mechanism to provide appropriate funding to remunerate NGT for efficient costs associated with the delivery of the delayed NARM output (taking account of the benefits delivered).</p> <p>If the adjustment to allowances under the GT2/GT3 Crossover adjustments mechanism is done on an anticipatory basis before the relevant NARM output is delivered, the Authority may introduce new outputs or PCDs in the RIIO-GT3 licence to hold NGT accountable for delivery.</p>
Mechanistic PCDs	<p>Allowances for mechanistic PCDs will be determined in line with the formulae set out in the relevant condition in the GT2 licence.</p> <p><b>Delayed delivery</b></p> <p>The delivery of RIIO-GT2 mechanistic PCDs may be delayed into the GT3 period.</p>

<b>Type of RIIO-GT2 mechanism</b>	<b>Intended approach to GT2/GT3 Crossover adjustments</b>
	<p>In such circumstances, the application of the formulae in the relevant GT2 licence condition will result in NGT not being funded for mechanistic PCD volumes that were not delivered by their expected delivery dates.</p> <p>If some of these mechanistic PCD volumes are subsequently delivered (after the close out assessment is complete) and the Authority considers that delivery is beneficial to consumers, the Authority may use the GT2/GT3 Crossover adjustments mechanism to provide appropriate funding to remunerate NGT for efficient costs associated with the delivery of the delayed mechanistic output, taking account of the benefits delivered.</p> <p>If the adjustment to allowances is done on an anticipatory basis before the mechanistic PCD volumes are delivered, the Authority may introduce new outputs or PCDs in the GT3 licence to hold NGT accountable for delivery.</p>
<b>Evaluative PCDs and reopeners</b>	<p>All GT2 evaluative PCDs will be assessed as part of the GT2 close out in line with Part A of SpC 9.3 of the GT2 licence.</p> <p><b>Delayed delivery</b></p> <p>In some circumstances, the delivery of some RIIO-GT2 evaluative PCDs may be delayed into the RIIO-GT3 period.</p> <p>In such circumstances, and depending on the extent of delay, the RIIO-GT2 evaluative PCD assessment process may result in a downward funding adjustment for non-delivery of the PCD.</p> <p>If part or all of the PCD is subsequently delivered (after the evaluative assessment is complete) and the Authority considers that delivery is beneficial to consumers, the Authority may use the GT2/GT3 Crossover adjustments mechanism to provide appropriate funding to remunerate NGT for efficient costs associated with the delivery of the delayed evaluative PCD, taking account of the benefits delivered.</p> <p>If the adjustment to allowances is done on an anticipatory basis before the PCD is delivered, the Authority may introduce new outputs or PCDs in the RIIO-GT3 licence to hold NGT accountable for delivery.</p> <p><b>Reopener submissions made before 31 March 2026</b></p>

Type of RIIO-GT2 mechanism	Intended approach to GT2/GT3 Crossover adjustments
	<p>A licensee may submit (or have submitted) a valid application for additional funding or adjustments to outputs under a reopener mechanism in the RIIO-GT2 licence.</p> <p>Provided a valid and complete application is made on or before 31 March 2026, Ofgem will assess these applications in accordance with the provisions contained in the relevant conditions at the time of application.</p> <p>If, following its assessment of the application, Ofgem decides to make adjustments to allowances, we may do so by making an adjustment to the relevant allowance term under the GT2/GT3 Crossover adjustments mechanism.</p> <p>If Ofgem decides to amend existing outputs or create new outputs, we will do so through a modification to the GT3 licence using our S23 powers.</p>
UIOLI	<p><b>Unused UIOLI allowances</b></p> <p>In some circumstances, NGT may not have fully utilised allowances provided on a use it or lose it basis (UIOLI) in the RIIO-GT2 price control period. In these circumstances, there may be benefits in allowing NGT to transfer the unused funding into the RIIO-GT3 period, though we consider this unlikely.</p> <p>If the Authority considers that there are benefits to transferring the unused funding to the GT3 period, we may use the GT2/GT3 Crossover adjustments mechanism to provide the funding for the GT3 period.</p> <p>The Authority may apply conditions to such GT3 allowances, including by setting outputs or price control deliverables, or a use it or lose it condition.</p>

## **5. Process for making adjustments under the GT2/GT3 Crossover adjustments mechanism**

- 5.1 As set out in Special Condition 3.28, we intend to make any amendments to allowances specified in Appendix 1 of the condition and, where appropriate, introduce new outputs or deliverables using our powers under Section 23 of the Act.
- 5.2 These adjustments are intended to be complementary to the GT2 close out process. Therefore in most cases, our expectation is that we would wait until the conclusion of the GT2 close out process before making an adjustment under the GT2/GT3 Crossover adjustments mechanism.
- 5.3 Where we are satisfied there are no material interactions between the GT2/GT3 Crossover item and the GT2 close out process, or that it is not necessary or appropriate to wait until the conclusion of the GT2 close out process, we may decide to make adjustments under the GT2/GT3 Crossover adjustments mechanism at any time.
- 5.4 Adjustments under the GT2/GT3 may be initiated by Ofgem or they could be made following an application by NGT. The rest of this section sets out our intended process for making adjustments.

### **Adjustments initiated by Ofgem**

- 5.5 Ofgem may initiate an adjustment under the GT2/GT3 Crossover adjustments mechanism at its discretion at any time during the price control period.
- 5.6 For instance, the GT2/GT3 Crossover adjustments mechanism might be used by Ofgem to give effect in NGT's licence to a funding decision that it has already made where a suitable alternative mechanism is not available in the GT3 licence.
- 5.7 In such cases, there is no need for a formal application from NGT. However, Ofgem may require NGT to provide such information as may be necessary to ensure the amendments made under the mechanism are appropriate.

### **Adjustments initiated by NGT**

- 5.8 If NGT considers that an adjustment to allowances or outputs under the GT2/GT3 Crossover adjustments mechanism is required, it must submit a request in writing to Ofgem. Such requests may be submitted at any time during the GT3 period.
- 5.9 Any requests for adjustments under the GT2/GT3 Crossover adjustments mechanism must include the following:
  - A detailed explanation of the need for the requested adjustment to allowances specified in Appendix 1 of Special Condition 3.28, including as a minimum:

- An explanation of how the requested adjustment meets the definition of an GT2/GT3 Crossover item as specified in Special Condition 3.28.
- Demonstration, along with supporting evidence, that without the requested adjustment, the licensee would not be adequately remunerated for the efficient cost of delivering the GT2/GT3 Crossover item.
- Demonstration, along with supporting evidence, that the requested adjustment is beneficial and in the interests of current and future consumers.
- A detailed explanation of the calculation of the requested adjustment to allowances specified in Appendix 1 of Special Condition 3.28, including as a minimum:
  - Demonstration, along with supporting evidence, that the costs intended to be remunerated by the requested adjustment are economic and efficient. This requirement may be waived by Ofgem if it considers that an assessment of cost efficiency is not required.
  - Where forecasts are relied upon, a demonstration with evidence that the forecasts are based on reasonable evidence and are robust under different scenarios.
  - Demonstration along with supporting evidence that the costs intended to be remunerated by the requested adjustment are not (and will not be) remunerated otherwise by a mechanism in the licence.
- A detailed explanation of how consumers' interests will be protected as a result of implementing the requested adjustment, including where appropriate:
  - Proposals for new outputs or deliverables that can be used to hold NGT accountable for the intended benefits to consumers of the requested adjustment.

5.10 NGT must provide high-quality information to support our assessment of those applications. To this end, and as far as reasonably possible, applications must be accurate, unambiguous, complete, and concise.

5.11 All applications must be accompanied by written confirmation from a suitable senior person within NGT that the application has been prepared and submitted, such that:

- it is accurate and robust, and that the requested adjustments are in the interests of consumers.

- there were quality assurance processes in place to ensure the licensee has provided high-quality information to enable Ofgem to make decisions which are in the interests of consumers.
- the application has been subject to internal governance arrangements and received sign off at an appropriate level within the licensee.

5.12 A point of contact must be provided for each application, including name, position, email, and phone number.

## **Assessment of applications and timing of decisions**

5.13 Ofgem will assess applications from licensees under the GT2/GT3 Crossover adjustments mechanism in accordance with our principal objective and statutory duties. In doing so, we will also have regard to the general principles set out in Chapter 3 above.

5.14 We will aim to complete our assessment of applications and publish our decision in a timely manner. We recognise that unnecessary delays in reaching a decision could have detrimental impacts. However, the timeline for our decision on individual applications may vary and depends on several factors including the complexity of the issues raised, the quality and completeness of information provided in the application, the extent of interaction with the GT2 close out process, and whether there are inter-related matters being concurrently assessed.

## **Implementation of decisions**

5.15 If, following our assessment of an application under the GT2/GT3 Crossover condition, we decide to make an adjustment to allowances set out in Appendix 1 or Appendix 2 of the condition, we will seek to implement this as soon as practical afterwards through a modification to the licence using our powers under S23 of the Act.

5.16 Where necessary to protect the interests of consumers and to ensure licensees remain accountable for delivery of funded work, we may decide to create new outputs or PCDs or amend existing outputs or PCDs in Appendix 3 or Appendix 4 of the condition using our powers under S23 of the Act.