

Governance

Decarbonisation Project Development UIOLI Governance Document

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Overview:

This governance document is the RIO-3 Decarbonisation Project Development UIOLI Governance Document (the ‘DPD UIOLI Governance Document’), issued and amended in accordance with Special Condition 3.5 of the Gas Transporter Licence (the ‘DPD UIOLI licence condition’). The DPD UIOLI Governance Document was previously named the Net Zero and Re-opener Development UIOLI allowance Governance Document in RIO-2. It sets out the detailed arrangements for the use it or lose it allowance, including scope and maximum spend available. The gas distribution networks (GDNs) and National Gas Transmission (NGT) are required to comply with this governance document under the DPD UIOLI licence condition.

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. Any monetary values in this DPD UIOLI Governance Document are in sterling in a 2023/24 price base.

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1. Introduction

The Decarbonisation Project Development UIOLI

1.1 The Decarbonisation Project Development use it or lose it allowance is a RIIO-3 allowance for the GDNs and NGT. It is designed to enable decarbonisation projects, including shrinkage-related activities, and early development work for projects that gas Network Licensees intend to bring forward under the following re-openers:

- NGT and GDNs – Decarbonisation and Environmental Policy (DEP) Re-opener, Small Decarbonisation Projects (SDP) Re-opener; and
- GDNs 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:¹

- Cadent - £35.68m
- NGN - £8.30m
- SGN - £19.99m
- WWU - £8.90m
- NGT - £15.99m

1.3 These allowances are 0.5% of baseline totex. They 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

1.4 Network Licensees are required to comply with this DPD UIOLI Governance Document in accordance with Special Condition 3.5 in the Gas Transporter Licence.

¹ These allowances are subject to change prior to the publication of the finalised DPD UIOLI Governance Document for RIIO-3.

Review

- 1.5 Ofgem may from time to time, following consultation with Network Licensees and other interested parties, revise this DPD 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 and unrecoverable DPD 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 DPD UIOLI licence condition may be incurred in relation to two broad areas:
- small decarbonisation projects, including shrinkage reduction activities; and
 - early development work for projects that Network Licensees intend to bring forward under the decarbonisation re-openers (DEP Re-opener and SDP Re-opener).
- 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.

Allowable DPD expenditure

Small decarbonisation projects

- 2.3 The DPD UIOLI allowance may be used to fund low and no regret projects in the GD and GT sectors, including full-time equivalent (FTE) resources where necessary to deliver these projects, that have a high decarbonisation impact but are not entirely captured by other mechanisms. FTE resources are allowed under the DPD UIOLI where – and only where – they are clearly time limited, demonstrably incremental, and directly linked to the delivery of specific eligible activities or projects.
- 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 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 Network Licensees 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.

Shrinkage-related activities

2.7 Network Licensees may use the DPD UIOLI to fund shrinkage-related activities.² 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 2.19.

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

- 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 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](#)

2.9 NGT may use the DPD UIOLI to fund ALD where the intent is to efficiently reduce 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 should 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 we do not expect it to have direct implications for GDN planning. We outlined the scope of the tRESP in an open letter in February 2025.³ 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.

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.

³ [Scope of the transitional Regional Energy Strategic Plan | Ofgem](#)

2.14 This includes funding RESP-related activities.⁴ Any RESP-related activities funded via the DPD UIOLI must be:

- in preparation for RESP outputs; or
- for the purposes of coordination and engagement with the NESO to inform 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.

Early development work

2.18 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

⁴ As decided in paragraph 6.43 of our RIIO-3 Final Determinations Overview Document.

have been funded to do so elsewhere in the price control. In such instances, the 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.

Unrecoverable DPD expenditure

2.19 Network Licensees should not use the DPD UIOLI for any projects that are expected to cost more than £2.5m. If a project is expected to cost more than £2.5m then the DPD UIOLI is ineligible as a revenue source for project costs over £2.5m. Such projects can instead be brought forward under other regulatory mechanisms, such as the SDP Re-opener which is available to both the GD and GT sectors.⁵ Approval of such requests will not be guaranteed and will be subject to the relevant re-opener process. This will ensure that the total allowance can be used across a variety of potential projects, and that the Network Licensee's DPD UIOLI is never exhausted on one project (which would be especially detrimental to consumers if that project didn't ultimately progress).

2.20 The DPD UIOLI cannot be used to fund activities that have already been funded through other price control mechanism(s) or baseline allowances. The DPD UIOLI may be used to fund incremental scope or specification of projects, assets or

⁵ As per paragraph 1.1 in this document.

investments that enhance decarbonisation that would otherwise not be affordable under other price control allowances.

2.21 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. Network Licensees must not use the DPD UIOLI for the development and innovation of vehicles, gas production or activities downstream of the meter.

2.22 Network Licenses should not use the DPD UIOLI to fund hydrogen-related projects, except:

- where these adhere to paragraph 2.19; **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 NGT 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.

3. Annual regulatory reporting for DPD UIOLI projects

- 3.1 The reporting requirements for each Network Licensees' DPD UIOLI expenditure are set out in Condition A40 (Regulatory Instructions and Guidance) of the Gas Transporter Standard Licence Condition.

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 Gas Transporter Licence.

Heat Policy Re-opener

Means the re-opener described in Special Condition 3.14 in the Gas Transporter Licence. It only applies to the GDNs.

The Decarbonisation Project Development UIOLI allowance

Means the allowance described in Special Condition 3.5 in the Gas Transporter Licence.

Small Decarbonisation Projects Re-opener

Means the Re-opener described in Special Condition 3.4 in the Gas Transporter Licence.

Decarbonisation and Environmental Policy Re-opener

Means the re-opener described in Special Condition 3.6 in both the Gas Transporter Licence.

Network Licensee

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

New Large Load Re-opener

The re-opener described in Special Condition 3.16 in the Gas Transporter Licence. It only applies to the GDNs.

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.