

Guidance

Funded Incremental Obligated Capacity Guidance and Submissions Requirements Document

Publication date:	1 April 2026
Contact:	RIIO-3 Team
Team:	Network Price Controls
Email:	RIIO3@ofgem.gov.uk

This guidance covers the Funded Incremental Obligated Capacity (FIOC) Re-opener arrangements introduced as part of the RIIO-3 gas transmission price control. The purpose of this re-opener is to assess projects associated with the release of funded incremental obligated capacity during the RIIO-GT3 price control (1 April 2026 to 31 March 2031).

This document is aimed at National Gas Transmission (NGT) as the owner and operator of the Great Britain National Transmission System (NTS), and any stakeholders with an interest in the process. The document sets out the different stages and submission requirements of the re-opener. It is the responsibility of NGT to decide what information is necessary to make a robust case for a proposed project and to provide us with all relevant information to assist our assessment.

Guidance Funded Incremental Obligated Capacity Guidance and Submissions Requirements Document

© Crown copyright 2026

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the Open Government Licence.

Without prejudice to the generality of the terms of the Open Government Licence, the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to psi@nationalarchives.gsi.gov.uk.

Contents

1. Introduction.....	4
Purpose of this document.....	4
2. Overview of the FIOC Re-opener process	5
Licence Obligations	5
3. FIOC Strategic Option.....	6
Overview	6
Information and evidence requirements	6
Performance against an economic test	6
Our consultation process	7
4. FIOC Project Direction.....	8
Overview	8
Information and evidence requirements	8
Review of FIOC Strategic Option	11
5. PCD Reporting / Cost and Output Adjusting Events	13
Reporting	13
Cost and Output Adjusting Event.....	13

1. Introduction

Purpose of this document

- 1.1 This document sets out the requirements for applications submitted under Special Condition 3.11 (Funded Incremental Obligated Capacity Re-Opener and Price Control Deliverable) of the gas transporter licence held by National Gas Transmission.
- 1.2 The Funded Incremental Obligated Capacity Re-Opener allows National Gas Transmission to seek additional allowances to fund projects that facilitate the release of either Incremental Entry Capacity or Incremental Exit Capacity that cannot be released by Entry Capacity Substitution or Exit Capacity Substitution as defined in Special Condition 1.1.

2. Overview of the FIOC Re-opener process

Section summary

This section provides a summary of the FIOC Re-opener process. It sets out the different steps and an overview of the requirements for submissions made under this process.

Licence Obligations

- 2.1 Special Condition 9.17 (Methodology to determine the release of Entry Capacity and Exit Capacity volumes) requires that National Gas Transmission publish an
 - Entry capacity release methodology statement; and an
 - Exit capacity release methodology statement.
- 2.2 In situations where National Gas Transmission is unable to meet requests for Incremental Obligated Entry Capacity or Incremental Obligated Exit Capacity without network investment, it may seek funding for this investment under Special Condition 3.11. This is a two-stage process involving two separate applications seeking:
 - Approval of the FIOC Strategic Option; and
 - A FIOC Project Direction specifying an output, delivery date and associated allowances in Appendix 2, Special Condition 3.11.
- 2.3 Both applications must be made in compliance with:
 - This Funded Incremental Obligated Capacity Guidance and Submissions Requirements Document; and
 - Special Condition 9.4 and the Re-opener Guidance and Application Requirements Document.
- 2.4 In assessing both applications, we will follow the process set out in in this document, Special Condition 3.11 and the Re-opener Guidance and Application Requirements Document.
- 2.5 The output, delivery date and allowances specified in the FIOC Project Direction are the parameters of the Price Control Deliverable the delivery of which will be monitored and assessed in accordance with our Price Control Deliverable Reporting Requirements and Methodology Document.
- 2.6 National Gas Transmission may subsequently apply for a direction adjusting the outputs, delivery dates and associated allowances in Appendix 2 where there has been a Cost And Output Adjusting Event.

3. FIOC Strategic Option

Section summary

This section sets out the requirements for the FIOC Strategic Option.

Overview

3.1 Approval of the FIOC Strategic Option should only be sought once:

- Notification was submitted under Part B of Special Condition 9.13; and
- The project is developed sufficiently. We would expect this to be during Phase 2 of the National Gas Transmission, Planning and Advanced Reservation of Capacity Agreement (PARCA) process following completion of a Strategic Options Report.

Information and evidence requirements

3.2 In addition to the requirements set out in the Re-opener Guidance and Application Requirements Document this application must include information on:

- Changes since submission of notification under Part B of Special Condition 9.13;
- Compliance with the Entry or Exit Capacity release methodology statement;
- Aspects of the application that will be updated when applying for the FIOC Project Direction;
- Potential benefits and risks relating to future proofing or anticipatory investments;
- The supply and demand scenarios underpinning the submission.
- Procurement and delivery strategy;
- Project risk profile and mitigations;
- Application of lessons learned from similar projects; and
- Potential impact on existing NTS System Operator incentive mechanisms.
- Procurement and project delivery strategy including the estimated value of major contracts, award methodology and style of contract (for example NEC4 ECI Option B).

Performance against an economic test

3.3 To protect existing consumers against uneconomic network expansion National Gas Transmission will need to demonstrate that the Net Present Value (NPV) of the additional transportation charges revenue generated by the sale of Funded Incremental Obligated Entry / Exit Capacity will be greater than the additional capital and operating expenditure incurred. This analysis must be completed for each of the shortlisted options including the counterfactual / do nothing option.

Guidance Funded Incremental Obligated Capacity Guidance and Submissions Requirements Document

- 3.4 The estimated additional transportation charges revenue that will be included in the FIOC Strategic Option analysis will consist of both:
- The transportation revenues generated from the initial capacity booking that will be required from the PARCA Applicant to secure the Funded Incremental Obligated Entry / Exit Capacity.
 - An estimate of future transportation revenues generated from the sale of the Funded Incremental Obligated Entry / Exit Capacity once the initial capacity booking has expired.
- 3.5 Any justification and assumptions underpinning the value of additional transportation revenues, alongside a sensitivity analysis must be included in the submission.
- 3.6 We will normally not approve any FIOC Strategic Option that does not deliver a positive Net Present Value unless it can be demonstrated that it delivers other material benefits to consumers. These may include:
- Security of supply as measured by the N-1 metric; and
 - Network capability as measured by exposure to pre-existing constraint management cost risk.
- 3.7 Second order impacts such as additional constraint management cost risk generated by the provision of the Funded Incremental Obligated Entry / Exit Capacity should only be considered when choosing between options that have already passed the economic test set out above.

Our consultation process

- 3.8 In making our decision on whether to approve the proposed FIOC Strategic Option we will follow the same process as that set out in Part F of Special Condition 3.11.
- 3.9 If we do not approve the proposed FIOC Strategic Option, no obligation will arise for NGT to release the capacity associated with the application. NGT has discretion to release the capacity as Non-Obligated Entry Capacity or Non-Obligated Exit Capacity in accordance with its capacity release methodology statements.
- 3.10 Any pass-through of a PARCA Termination Value will be carried out in accordance with Special Condition 6.1.

4. FIOC Project Direction

Section summary

This section sets out the submission requirements for an application for a FIOC Project Direction. It also provides information on Ofgem's assessment of such applications.

Overview

4.1 National Gas Transmission may only apply for a FIOC Project Direction following:

- Approval of the FIOC Strategic Option; and
- Approval of relevant planning applications unless otherwise directed by the Authority.

4.2 The application should only be submitted once the project has been sufficiently developed. It is unlikely that an application for a FIOC Project Direction submitted before the following occurs will provide us with sufficient information to make an informed assessment:

- The approved FIOC Strategic Option has been further developed such that future potential modifications would only have a marginal impact on the parameters of the Price Control Deliverable;
- Final procurement offers from external suppliers have been received; and
- Evidence that negotiations with external suppliers are moving to contract signing.

4.3 We would advise that between the approval of the FIOC Strategic Option and submission of an application for FIOC Project Direction National Gas Transmission should engage with us to discuss development of the FIOC Strategic Option and the procurement processes. This will facilitate a timely decision on the FIOC Project Direction and reduce the risk of an application being rejected.

Information and evidence requirements

4.4 In addition to the requirements set out in the Re-opener Guidance and Application Requirements Document this application must include the following cost information:

- A breakdown of all costs, cost disaggregation for asset types and cost schedules associated with the project;
- Information on any costs related to incurred spend (NGT will need to clearly highlight this and demonstrate that the spend is efficient as with all other costs); and
- Information on where any project revenues will be received outside of RIIO-GT3 price control mechanisms, and on what basis.

Guidance Funded Incremental Obligated Capacity Guidance and Submissions Requirements Document

- A clear indication of the maturity of each cost, in accordance with our classification and the cost estimate accuracy noted (+/-%), and accompanied by the relevant supporting documentation, set out in Table 1.

Table 1: Details of the project cost types

	Classification	Description	Supporting documentation required
1	Fixed	The cost has been incurred, is not subject to change and has supporting documentation matching the amount.	Contract/bill with supporting documentation of payment made. Fully auditable if needed.
2	Agreed, but re-measurable	The cost has been agreed or estimated but is subject to change according to a clear and agreed variation process. Changes only driven by unforeseeable circumstances.	Contract/bill with supporting documentation of payment made/to be made. Fully auditable if needed.
3	Agreed, but will be re-measured based on known future information received	The cost has been agreed or estimated but will be subject to change due to clarifying the scope of works or due to additional surveys and assessments being undertaken. As above, changes should follow a clear variation process.	Contract/bill with supporting documentation of payment made/to be made. Rates auditable, volumes subject to change based on quantifiable and foreseeable factors.
4	Estimated	Cost estimated on the basis of assessments and actual surveys and using experience and examples from other projects.	Spreadsheet with the calculation (methodology), assumptions, variables and evidence base, with explanations. List of any surveys done as well as documentation of the surveys.
5	Early estimate	Costs estimated through modelling cost ranges from different projects and past experience.	Spreadsheet with the calculations (methodology), assumptions, variables and evidence base, with explanations list of any surveys to be performed to increase the confidence of the cost estimates.

4.5 The application must include the following technical information:

- A description and details of the technical scope, construction works, and project route;
- Justification for any changes in design since approval of the FIOC Strategic Option;
- Details and justification of any technical designs (e.g. compressor station layout) and construction techniques to be used in the project (additional detail if design and/or construction activity is technically challenging, novel, or a cause for divergences in cost relative to industry benchmarks);

Guidance Funded Incremental Obligated Capacity Guidance and Submissions Requirements Document

- Details of any operational capability that is included in the technical proposal and justification for its inclusion.
- 4.6 The application must include the following information on procurement and contracts:
- A description of and justification for the procurement strategy;
 - A description of and justification for the principal contracts to be awarded including, outputs to be delivered through the contract and type of contract (for example NE4 Option B);
 - The number of bidders included at each stage of the contract award process;
 - The marking scheme used to award contracts including an assessment of the number of marks awarded under technical criteria needed to compensate for a 1% variation in cost;
 - A justification for any tender variations following invitation to tender;
 - The marks awarded to individual contractors invited to tender;
 - A brief justification of the choice of successful bidder;
 - A justification for any variation orders prior to final contract signing.
- 4.7 The application must include the following information on the project delivery plan:
- A description of and justification for the project delivery strategy / model;
 - A detailed delivery schedule with key dates and critical paths clearly identified;
 - Evidence that the necessary project management resources are available to deliver the project;
 - Previous experience from similar projects and how this has been reflected in project delivery plan.
- 4.8 The application must include the following information on risk and contingency:
- A description of project risk assessment, management and mitigation strategy;
 - Relevant insurance, foreign exchange and outage risk management tools in place;
 - A description of and justification for risks included in supplier contracts (eg Clause X within NEC 4 contracts).
 - A justification for the level of risk / contingency included in the funding request given other risk sharing mechanisms including the Totex Incentive Mechanism and Cost And Output Adjusting Events;
- 4.9 For those risks retained by National Gas Transmission a Monte Carlo simulation should be used to assess the P50 level of risk exposure. For each individual risk the information set out in Table 2 below must be included.

Table 2: Risk register codes and ID

Guidance Funded Incremental Obligated Capacity Guidance and Submissions Requirements Document

ID	Unique risk code
Project area	Which part of the project the risk relates to (example: weather downtime – subsea cable; ground conditions – underground cable)
Description of risk	A detailed description and rationale behind the risk, including the source of the risk
Action	What actions have / will be taken towards the risk and how will the risk be monitored
Mitigations	What actions will be/have been taken to mitigate the risk, and what is the estimated cost of the mitigation action
Fall-back action	Action that can be taken to fully mitigate the risk and negate its effects
Fall-back action cost	The cost of “fall-back action”
Risk identification date	Date when the risk was identified
Risk owner	Party best placed to control the risk (developer, contractor, etc.)
Risk owner rationale	Rationale why the party owning the risk has been identified as such
Risk date	Date when the risk is due to materialise or expire
Minimum cost exposure	Minimum cost exposure of the risk, after the mitigation actions
Minimum cost exposure method	Calculations showing how the minimum cost exposure has been derived together with the input value sources and rationale.
Most likely cost exposure	Most likely cost exposure of the risk, after the mitigation actions
Most likely cost exposure method	Calculations showing how the most likely cost exposure has been derived together with the input value sources and rationale.
Maximum cost exposure	Maximum cost exposure of the risk, after the mitigation actions
Maximum cost exposure method	Calculations showing how the maximum cost exposure has been derived together with the input value sources and rationale.
Probability of the risk occurring	Probability of the risk occurring
Probability of the risk occurring method	Calculations showing how the probability has been derived together with the input value sources and rationale. Values must be shown as P50.
Reference	Reference to the document/hyperlink to source of supporting documentation for calculating the min, best, max and probability values.

Review of FIOC Strategic Option

4.10 The purpose of this review is not to revisit the option selection but to confirm that the business case for the approved FIOC Strategic Option has not fundamentally changed. National Gas Transmission must update the key pieces of evidence and analysis presented in the FIOC Strategic Option submission, highlighting material

Guidance Funded Incremental Obligated Capacity Guidance and Submissions Requirements Document

changes and the impact they would have on the FIOC Strategic Option business case.

- 4.11 The updated analysis must exclude any expenditure incurred to date. These are sunk costs and must not be included when deciding whether to proceed with the FIOC Strategic Option. However, where this expenditure has developed outputs that have an alternative use value should the project not proceed. This alternative use value should be included in the assessment.
- 4.12 Should the decision be not to approve the FIOC Project Direction expenditure efficiently incurred will be recoverable through a PARCA Termination Value in accordance with Special Condition 6.1. National Gas Transmission should review the business case for the FIOC Strategic Option on a regular basis and in particular before purchasing capital items such as steel pipeline or compressor packages.

5. PCD Reporting / Cost and Output Adjusting Events

Section summary

This section sets out information about the delivery and adjustment to project outputs, delivery dates or allowances.

Reporting

- 5.1 National Gas Transmission is required to adhere to the PCD Reporting Requirements and Methodology Document for its responsibility for reporting on outputs under this condition.

Cost and Output Adjusting Event

- 5.2 Under certain circumstances, National Gas Transmission may apply to Ofgem to amend the FIOC output, delivery date or allowance, where project expenditure has increased, or decreased significantly during construction. The provisions for a Cost and Output Adjusting Event are set out in Part C of Special Condition 3.11.
- 5.3 Any application and our assessment will follow the process set in our Re-opener Guidance and Application Requirements Document.