

Consultation name: Modifications to the Biomethane Connections UIOLI governance document

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Response author: SGN

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20th July 2026

Modifications to the Biomethane Connections UIOLI Governance Document

Thank you for the opportunity to respond to the above consultation¹ regarding amendments to the biomethane Use It or Lose It (UIOLI) Governance Document.

One of the key amendments to the governance document that SGN would like to address as part of this consultation is the reallocation of allowances internally between networks. We have been in communication with Ofgem to seek clarification regarding the wording and interpretation as this will be key to ensuring fair beneficiary of proposed changes across all licencees.

This consultation also follows shortly after the joint GDN letter sent to Ofgem on 30th June 2026 regarding the same subject matter to address concerns that were shared across all networks. The networks were advised by Stephanie Cameron that the majority of our issues raised at this time would be more appropriately considered as part of the wider review in either the expected August statutory licence consultation in August, or a consultation in the autumn which will address issues with all associated documents. With the remaining points raised to be addressed directly in the short term.

SGN understand that there are allocated consultations for addressing implementation issues for all GD3 documentation, however, as the GD3 price control period commenced in April 2026, it is vital that continued engagement is maintained and issues resolved as a matter of priority to ensure correct governance and licence obligations are articulated and understood, in this case for Biomethane connections Use It or Lose It, in order to appropriately deliver the best outcome for our customers.

As such, we have reviewed the consultation and provided our comments to specific amendments as well as reiterated our outstanding concerns in the below annex.

Should you have any questions regarding our response, or wish to discuss further, please do not hesitate to contact me at Hilary.Chapman@SGN.co.uk.

Kind Regards,

Hilary Chapman,

Hilary Chapman
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¹ [Biomethane Use It Or Lose It \(UIOLI\) Governance Document](#)



Annex

Changes included within consultation

Within this consultation, we note the proposed amendment:

"2.16 A licensee that operates over more than one distribution network ~~must not~~ may reallocate the allowances between its networks. ~~A GDN must not submit a Coordinated Adjustment Mechanism (CAM) application for Biomethane UIOLI funding. We will seek to reject any such applications should they be submitted.~~"

We agree that application through CAM for this adjustment to allowances between internal networks is the most appropriate mechanism, however SGN have reached out to Ofgem for clarification on this amendment where we believe further wording would be beneficial.

SGN's interpretation is that it is the intention of the guidance to indicate that, as our Scotland and Southern licences sit within the overall Scotia Gas Networks corporate body, the allocation of SGN allowances would be eligible to transfer across the separate Scotland and Southern network areas. Assuming this interpretation is correct, we would welcome reflection as such within the licence drafting and would suggest the below amendment:

*"2.16 A licensee that operates over more than one distribution network ~~must not~~ **may reallocate the allowances between its networks for which the licences are held within the same corporate group.** ~~A GDN must not submit a Coordinated Adjustment Mechanism (CAM) application for Biomethane UIOLI funding. We will seek to reject any such applications should they be submitted.~~"*

This is an important point of clarity, to ensure that the governance document offers fair and equal opportunity from the proposed change.

If Ofgem do intend Licensees to use the CAM mechanism to transfer UIOLI allowances between licences, this will require confirmation in writing within the biomethane UIOLI governance document.

Joint letter points of concern

Below are the points raised within the joint GDN letter to Ofgem on 30th June 2026. We acknowledge the suggestion that points 2, 3 and 5 will be addressed in consultations expected later in the year, however, we would appreciate if these points were considered as part of this consultation to ensure we have a clear understanding of the governance structure and can appropriately deliver the biomethane connections UIOLI mechanism.

2. In section 2.10 – under bullet two which specifies allowable UIOLI expenditure, it includes - “Capex and opex associated with Biomethane Distributed Entry Reinforcement, net of customer charges levied in accordance with the Connection Charging Methodology statement where these charges do not exceed the cap referenced in 2.9 of this document for a single connection or the overall allowance stated in Appendix 1 of Special Condition 3.21 of the GDNs’ Gas Transporter Licence;” – We would like to request a both an adaptation and clarification of this statement. Firstly, the GDNs have jointly agreed that the statement ‘these charges do not exceed the cap referenced in 2.9’ should be adapted to state, ‘these allowances do not exceed the cap referenced in 2.9’, as this refers to the allowance within the GDNs licence rather than the customer charges. Secondly, our understanding is that the allowable UIOLI expenditure only includes the financial contribution of the GDN once the customer contribution has been deducted as long as that financial contribution does not exceed the £2m cap per Biomethane Connection or per modification to an existing Biomethane Connection. However, it is unclear from the latter part of this statement which states “or the overall allowance stated in Appendix 1 of Special Condition 3.21 of the GDNs’ Gas Transporter Licence.” what the restriction here is. Appendix 1 of Special



condition 3.21 sets out the GD3 allowance with no in year caps measured. Therefore, it is unclear what this statement is pointing to in terms of exceeding the overall allowance as this could only be measured towards the end of the price control period once the allowance has been used for several other projects.

3. In section 2.10 – under bullet three there are several ‘allowable’ expenditure areas detailed including pipelines, compressors etc. In the draft UIOLI governance document, there was an additional area included as ‘Metering for low flow rates at GDN transmission offtake points as a result of increased Biomethane capacity requirements.’ The final version of the governance document does not include this area. It is unclear as to why this area was removed from the document as it is definitely an area that GDNs will incur a cost. We would propose this is added back to ensure all appropriate areas are included.

5. In section 3.6 – the governance document states that GDNs “must not report any costs in the Biomethane UIOLI reporting worksheet in the RRP above the allowances per Biomethane Connection specified in Special Condition 3.21 of the GDNs’ Gas Transporter Licence.” As per our comments in point 2 above – the Licence (3.21) does not split out the £20m UIOLI allowance over the 5 years, it simply states £20m for the entirety of the price control period. Therefore, it is unclear what this statement is referring to as GDNs would not know if they are near to exceeding allowances until the final years of the price control. In addition, the £2M cap should be clearly stated to be in 23/24 prices as for the £20m, otherwise it will be a nominal £2M and decrease in value in real terms over the price control period.

In respect of the below points 1 and 4 included in the joint GDN letter, Ofgem stated clarification would be provided in the short term. This response from Ofgem was received on 3rd July, and we await a response to address these points.

1. In section 1.4 – the governance document states, “In addition to the definition in Special Condition 1.1 of the GDNs’ Gas Transporter Licence, Biomethane Distributed Entry Reinforcement also includes physical works to enable or accommodate Biomethane injection at a higher pressure tier to enable greater capacity than would otherwise have been provided”. Our collective interpretation of this statement would be that any costs associated with switching an existing site from, for example, an IP network to a LTS network including the associated pipeline costs would qualify, however the governance document does not make this clear. It would be useful for Ofgem to provide further clarification.

4. In section 3.4 – the paragraph states that any expenditure not covered by the UIOLI allowance or recovered directly from the connector under the relevant 4B provisions should be included under a separate adjustment line in the RRP. The current process for GD2 allows us this adjustment under tab 1.01b. We would expect this to remain the same going forward for RIIO GD3, however, we are aware that the RIIO-GD3 RRP templates are still being developed and therefore our understanding of where this adjustment is located is subject to change. We need to ensure clarity is provided through the ‘GD3 RRP and RIGs working Group’.