Guidance

Biomethane Use It Or Lose It (UIOLI) Governance Document

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This document is for Gas Transporter licensees (Gas Distribution Networks, "GDNs") and National Gas Transmission plc ("National Gas") and provides information relating to their expenditure under the Biomethane use it or lose it ("UIOLI") allowance. It introduces the Biomethane UIOLI, and explains eligible expenditure and reporting requirements.

The Biomethane UIOLI is an uncertainty mechanism in RIIO-GD3 and RIIO-GT3. In RIIO-GD3, it provides funding for Biomethane Distributed Entry Reinforcement for costs incurred by the GDNs due to new or existing Biomethane entry capacities. In RIIO-GT3, it funds total expenditure costs of Biomethane Connections onto the National Transmission System ("NTS") for which no support has been received under the current Green Gas Support Scheme, a government scheme which provides tariff support for Biomethane and which closes to new applications in March 2028.

This document is version 2~~1~~ of the Biomethane UIOLI Governance Document issued by the Authority under both Special Condition 3.21 (Biomethane Distributed Entry Reinforcement (BDERt)) use it or lose it allowance of the GDNs' Gas Transporter Licence and Special Condition 3.15 (Biomethane use it or lose it allowance (BIOCt)) of National Gas' Gas Transporter Licence. It will take effect from ~~1 April~~12 August 2026, for the RIIO-3 Price Control Period.

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1. Introduction

Biomethane

1.1 Unless otherwise stated, the definitions below are consistent with Special Condition 1.1 of the GDNs' Gas Transporter Licence and/or with Special Condition 1.1 of National Gas' Gas Transporter Licence.

1.2 Biomethane means a gas as defined in the technical standard IGEM/TD/16.

1.3 Biomethane Connections means connections of a Biomethane plant onto either the NTS or the GDN to inject Biomethane.

1.4 Biomethane Distributed Entry Reinforcement means the physical works undertaken by a GDN to modify or extend its existing network assets in order to provide a sustained increase in network capacity necessary to enable or accommodate Biomethane injection, beyond the assets required solely for the direct connection of the Biomethane facility. 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.

Gas Distribution

1.5 In our RIIO-GD3 Final Determinations, we decided to introduce a Biomethane UIOLI allowance to provide funding for the GDNs for costs incurred for both operating expenditure ("opex") and capital expenditure ("capex") costs for Biomethane Distributed Entry Reinforcement required to address capacity constraint issues associated with Biomethane Connections.[1]

1.6 This document sets out the following in line with Special Licence Condition 3.21 of the GDNs' Gas Transporter Licence:

- allowable Biomethane UIOLI expenditure and unrecoverable Biomethane UIOLI expenditure;
- the eligibility criteria, which expenditure incurred in relation to the allowance provided by this licence condition must meet; and
- the reporting obligations in respect of which expenditure incurred in relation to Biomethane use it or lose it must meet.

[1] 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

1.7 Under Special Condition 3.21 of the GDNs' Gas Transporter Licence, Ofgem will direct a Use It Or Lose It Adjustment where it considers one appropriate

Gas Transmission

1.8 In our RIIO-GT3 Final Determinations, we decided to introduce a Biomethane UIOLI allowance to provide funding to National Gas for the costs incurred (both opex and capex costs) in connecting biomethane plants onto the NTS.

1.9 This document sets out the following in line with Special Licence Condition 3.15 of National Gas' Gas Transporter Licence:

- allowable Biomethane UIOLI expenditure and unrecoverable Biomethane UIOLI expenditure;
- the eligibility criteria, which expenditure incurred in relation to the allowance provided by this licence condition must meet; and
- the reporting obligations in respect of which expenditure incurred in relation to Biomethane use it or lose it must meet.

1.10 Under Special Condition 3.15 of National Gas' Gas Transporter Licence, Ofgem will direct a Use It Or Lose It Adjustment where it considers one appropriate.

Audience and publication

1.11 This document should be read by:

- The GDNs, as the owners and operators of the distribution networks;
- National Gas, as the owner and operator of the NTS; and
- Any stakeholders with an interest in new or existing Biomethane Connections or Biomethane Distributed Entry Reinforcement onto the low, medium, intermediate or high pressure tier networks.

1.12 The Authority will issue and amend the Biomethane UIOLI Governance Document in accordance with Special Condition 3.21 of the GDNs' Gas Transporter Licence and Special Condition 3.15 of National Gas' Gas Transporter Licence. This document will be published on the Authority's website.

1.13 As provided by Special Condition 3.21 of the GDNs' Gas Transporter Licence and Special Condition 3.15 of National Gas' Gas Transporter Licence, in the Regulatory Year commencing on 1 April 2027, the Authority may review the licensees' management of Biomethane. This may include a review concerning the caps per Biomethane Connection, the total allowances and the Governance Document.

1.14 In the case of any changes to the cap level, we will have regard to the GDNs' Connection Charging Methodologies and any time required by the GDNs to make consequent changes.

Compliance

1.15 The licensees must comply with this Biomethane UIOLI Governance Document when incurring expenditure in relation to the allowance and when claiming under their respective allowances.

1.16 This document in no way relieves the licensees from the responsibility to ensure ongoing compliance with legislation including competition, data protection, environment and consumer protection laws.

2. Eligible expenditure

Eligibility criteria

2.1 This section sets out the criteria that the GDNs and National Gas must meet in order to be eligible for their Biomethane UIOLI allowances.

2.2 For the avoidance of doubt, the below eligibility criteria do not apply for the Decarbonisation Project Development (DPD) UIOLI. If the DPD UIOLI is erroneously used to fund any of the types of work that are eligible under the 'Allowable Biomethane UIOLI Expenditure' section of this chapter, we reserve the right to claw back the associated funding.

Gas Distribution

2.3 To be eligible for the allowance, GDNs must have a connection offer in place with the party seeking a Biomethane Connection.

2.4 If we find that a project does not meet the requirements set out in this document, we reserve the right to claw back the associated funding.

Gas Transmission

2.5 To be eligible for the allowance, National Gas must, prior to Ofgem's assessment of the Use It Or Lose It Adjustment, submit proof of a signed Gas Construction Agreement ("GCA") between National Gas and the biomethane plant developer.

2.6 If we find that a project does not meet the requirements set out in this governance document, we reserve the right to claw back the associated funding.

Allowable Biomethane UIOLI Expenditure

2.7 This section sets out the specific types of work that are eligible under the Biomethane UIOLI allowances, which constitute "allowable Biomethane UIOLI expenditure".

Gas Distribution

2.8 The Biomethane UIOLI allowance must be used to cover the opex and capex costs of Biomethane Distributed Entry Reinforcement incurred to facilitate Biomethane Connections to the distribution network, or to increase capacity for existing Biomethane Connections.

2.9 The allowances must not exceed £2m per new Biomethane Connection or per modification to an existing Biomethane Connection.

2.10 "Allowable Biomethane UIOLI expenditure" for Gas Distribution includes:

- Ongoing capex and opex associated with Biomethane Distributed Entry Reinforcement;

- 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;

- Capex and opex incurred in relation to:

  - Pipelines;

  - Compressors;

  - Pressure management; and

  - Storage.

Gas Transmission

2.11 The Biomethane UIOLI allowance must be used to cover the network connection costs of Biomethane Connections onto the NTS.

2.12 "Allowable Biomethane UIOLI expenditure" for Gas Transmission includes:

- Opex to conclude a Network Entry Agreement (NEA), including:

  - Early funding to cover desk-based research and design, comparison of different options and development of project plans;

  - Development of feasibility studies, risk assessments and establishing a needs case;

  - Detailed technical design and engineering development of the connection;

  - Work required to secure planning consent for the project, including planning consultations, legal costs, and planning applications;

  - Associated customer and stakeholder engagement, including Local Area Energy Planning; and

  - Costs associated with the application phase such as those of responding to an initial inquiry, producing a Biomethane Connection offer, costs of applying for and preparing the required planning and environmental permits, and other costs incurred in the process of finalising a NEA.

- Capex to enable physical Biomethane Connections onto the NTS. This may include costs of compression, valves, pipework etc., costs incurred by the main works contractor in construction of the Biomethane Connection, or any other capex that National Gas has incurred in the process of making a Biomethane Connection onto the NTS.

Unrecoverable Biomethane UIOLI Expenditure

2.13 This section sets out the types of work that are not included in the Biomethane UIOLI allowances, which are therefore unrecoverable under the Biomethane UIOLI. These constitute "unrecoverable Biomethane UIOLI expenditure".

Gas Distribution

2.14 "Unrecoverable Biomethane UIOLI expenditure" for Gas Distribution includes:[2]

- Expenditure not in accordance with the GDN's current approved Connection Charging Methodology;
- Biomethane Distributed Entry Reinforcement not described in paragraph 2.10; and
- Expenditure above the cap stated in paragraph 2.9 for a single connection or above the overall allowance stated in Appendix 1 of Special Condition 3.21 of the GDNs' Gas Transporter Licence.

2.15 For the avoidance of doubt, the expenditure in this section relates solely to that incurred under the Biomethane UIOLI allowance and does not modify or affect the GDNs' obligations under Special Condition 4B or their approved Connection Charging Methodology.

2.16 A licensee that operates over more than one distribution network may ~~must not~~ 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.~~

Gas Transmission

2.17 "Unrecoverable Biomethane UIOLI expenditure" for Gas Transmission includes:

- Streamlining of Biomethane Connections processes, the costs of producing standardised offers for Biomethane Connections for which National Gas has already received funding from other RIIO mechanisms, or other internal project management processes not attributable to a specific Biomethane Connection;

[2] For the avoidance of doubt, reinforcement costs identified as allowable under paragraph 2.10 remain recoverable under the Biomethane Connections UIOLI where customer charging is limited under the GDN's Connection Charging Methodology due to standard asset sizes, provided the reinforcement is the lowest-cost technically feasible and efficient solution.

- Expenditure above the cap stated in Special Condition 3.15 of National Gas' Gas Transporter Licence for a single connection or above the allowance stated in Appendix 1 to Special Condition 3.15 overall; and
- Connection of a Biomethane plant in receipt of GGSS funding.

3. Annual Regulatory Reporting Requirements

3.1 The Regulatory Instructions and Guidance ("RIGs") sets out all the Regulatory Reporting Pack ("RRP") requirements for the licensees.

Gas Distribution

3.2 GDNs must not record costs in the Biomethane UIOLI reporting worksheet of the RRP relating to the establishment of a connection offer for new connections or, in the case of existing Biomethane Connections, an agreement setting out the reinforcement costs (if any) to be borne by the customer. We expect the customer to pay for the costs incurred before a connection offer is in place, and therefore these costs should not be included as eligible expenditure in the Biomethane UIOLI reporting worksheet in the RRP.

3.3 Where a Biomethane Connection does not proceed to completion, the GDN should apply its approved Connection Charging Methodology, including any provisions relating to charges, securities and termination agreements, to determine the extent to which costs are recoverable from the connecting party.

3.4 Any expenditure that is not recovered from the customer through the application of the Connection Charging Methodology and that is not eligible under the Biomethane UIOLI allowance must not be included as eligible expenditure in the Biomethane UIOLI reporting worksheet in the RRP. This should be done in a separate adjustment line in the RRP to show clarity.

3.5 GDNs must report on costs for any new Biomethane Connection for which the connection offer occurs in RIIO-GD3, limited to assets and works that are directly attributable to enabling that individual connection.

3.6 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. These reported costs may exceed the annual £4m allowance for any given year to include allowances rolled over from previous years. Where the total Biomethane UIOLI costs reported are lower than the total Biomethane UIOLI allowance, we will make downward adjustments to the allowance at close-out.

Gas Transmission

3.7 National Gas must not record costs relating to the establishment of a GCA in the Biomethane UIOLI reporting worksheet of the RRP. We expect the biomethane plant developer to pay for the costs incurred up to the signing of the GCA, and therefore these costs should not be included as eligible expenditure in the Biomethane UIOLI reporting worksheet in the RRP initially. Upon successful completion, National Gas will claim these costs and reimburse the biomethane plant developer.

3.8 After the GCA is in place, if the project does not result in a completed and usable Biomethane Connection, the biomethane plant developer is expected to pay fully; National Gas must ensure that the GCA includes provisions that oblige biomethane plant developers to cover the costs of any failed Biomethane Connections. In the case of no completion, National Gas must remove any costs relating to that specific Biomethane Connection out of the Biomethane UIOLI reporting worksheet in the RRP. This should be done in a separate adjustment line in the Biomethane UIOLI reporting worksheet in the RRP to show clarity.

3.9 National Gas must report on costs for any individual Biomethane Connections for which the GCA makes provision in RIIO-GT3.

3.10 National Gas must not record any costs in the Biomethane UIOLI reporting worksheet in the RRP above the allowances per Biomethane Connection specified in Special Condition 3.15 of National Gas' Gas Transporter Licence. These reported costs may exceed the annual allowance for any given year to include allowances rolled over from previous years. Where the total Biomethane UIOLI costs reported are lower than the total Biomethane UIOLI allowance, we will make downward adjustments to the allowance at closeout.

3.11 We expect that National Gas will initiate any changes to the Uniform Network Code (UNC) as required to accommodate the implementation of this measure.

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.