

Guidance

Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document

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This Governance Document is for the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener, referred to under Special Condition 3.9 of the Gas Distribution Licence and Gas Transmission Licence.

This Governance Document sets out the arrangements for this re-opener – including details on the scope, process, and materiality thresholds.

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1. Introduction

The Net Zero Pre-Construction Work and Small Net Zero Projects Re-opener

- 1.1. The Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZASP)¹ was created to allow Gas Distribution (GD) and Gas Transmission (GT) Network companies to undertake early design, development and general pre-construction work which is too material to go through the Net Zero and Re-opener Development Use-It-Or-Lose-It (UIOLI). It also allows GD and GT Network companies to progress Net Zero facilitation capital projects related to hydrogen and green gas.
- 1.2. The use of the re-opener may be because the projects are:
 - not material enough for the Net Zero Re-opener.
 - not captured by the RIIO-2 innovation mechanisms.

NZASP Governance Document

- 1.3. This document is the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document and sets out the governance and administration of this re-opener.
- 1.4. 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.
- 1.5. In this document "Network Licensee" means the holder of a Gas Distribution Licence or a Gas Transmission Licence, regulated through the RIIO price control framework.

¹ Gas Distribution Special Licence Condition 3.9, Gas Transmission Special Licence Condition 3.9

Compliance

- 1.6. Network Licensees are required by the NZASP Licence Condition (Special Condition 3.9 in both the Gas Distribution Licence and Gas Transmission Licence) to comply with this document as if it formed part of their licence.

Review

- 1.7. Ofgem may from time to time, following consultation with Network Licensees and other interested parties, revise this NZASP Governance Document in accordance with the NZASP Licence Condition.

2. Scope, Process and Materiality Thresholds

Scope and Eligible Projects

2.1. The NZASP is an Authority-only triggered re-opener.

2.2. It has a broad scope, including:

- Early development/design and pre-construction work which is too material to be covered by the Net Zero and Re-opener Development UIOLI. This can include material Front End Engineering Design (FEED) studies, conceptual design pre-FEED and general feasibility work required for large capital projects.
- Net Zero projects that are too material for the Net Zero and Re-opener Development UIOLI, but not material enough, or appropriate for the Net Zero Re-opener or Heat Policy Re-opener. This includes repeatable, Net Zero facilitation (Green Gas and Hydrogen) projects and Hydrogen projects that are required as part of BEIS' Hydrogen Grid Research and Development Programme, including projects that may be interpreted as innovative – where there is a clear need and it is appropriate for consumers to fund.

2.3. We may, over time, update the detailed scope of this re-opener in accordance with the NZASP Licence condition, if required.

Materiality Threshold

2.4. The materiality threshold for this re-opener is £1m per project. Licencees cannot achieve this threshold by aggregating different types of projects.

2.5. The materiality threshold can be met through anticipated costs.

Process

2.6. There is a wide spectrum of projects and work that may come through this re-opener where applying a rigid, uniform process may not be appropriate.

2.7. To achieve agility where needed, we need robust engagement, the aim of which is to agree in principle, the needs case for an investment before the re-opener is triggered.

2.8. The key elements of the re-opener process are illustrated in Table 1 below.

Table 1: The NZASP Process

Net Zero Pre-construction Work and Small Projects Re-opener Process	
Before Authority Trigger: Engagement Phase	
Step	Purpose
Engagement	Continuous engagement to understand: <ul style="list-style-type: none"> • What is being proposed • The aim of the project and evidence that it fits into wider strategic goals • Why it is appropriate for this to be funded by network consumers and through this re-opener
Information Gathering	A semi-structured process to draw out key information. Where appropriate, Ofgem will provide guidance on structures and templates for this information.
After Authority Trigger: Assessment Phase	
Step	Purpose
Licensee application	Unless otherwise specified, the licensee application will include: <ul style="list-style-type: none"> • A detailed Needs Case • Detailed cost information, including cost/benefit analysis, including the proposed regulatory treatment of the costs • An Engineering Justification Paper • A Policy Justification Paper, which explains why an adjustment to allowances is justified and how the project aligns with overall strategic aims <p>Through the Engagement Phase, specific proformas for the above may be developed and requested to be used by us.</p>

Consultation	Based on the characteristics of the project we will determine whether a formal consultation is appropriate and the length of time.
Funding Decision	The Authority makes a funding decision and directs the relevant changes. This will include a decision on the regulatory treatment of approved funding

2.9. The two steps in the Engagement Phase above will be informed, and developed, overtime through engagement with the relevant stakeholders, including Network Licensees and government.

2.10. Where appropriate, guidance associated with this will be published on our website including terms of references and proforma to support engagement and ongoing information gathering.

Consultation

2.11. Under the Assessment Phase of the project, we will endeavour to take a proportionate approach to assessing the project to make quick decisions where this is appropriate. Some of the things we will consider are:

- The materiality of the work or project;
- The complexity of the work or project;
- How the work/project aligns with strategic policy aims; and
- Whether or not our funding decision is precedent setting.

Funding decision

2.12. We will engage Licencees throughout on the potential regulatory treatment of the approved funding and we may:

- Require Network Licencees to share knowledge in a way which is broadly consistent with other innovation funding mechanisms;

- Use a Price Control Deliverable (PCD);
- Adopt 'Project Directions' in a similar manner to Network Innovation Competition (NIA) to record and hold Licensees to account for specific deliverables;
- Direct the appropriate split between upfront funding and longer-term fund (through the RAV).
- Apply the Totex Incentive Mechanism (TIM); and
- Socialise approved funding across all consumers.

2.13. We intend to publish guidance on the models for regulatory treatment that we may seek to apply based on the characteristics of a project.