

Net Zero & Reopener Development UIOLI Allowance Governance Document

Section	Comments
General	<p>The document should, throughout, refer to the “Net Zero and Re-opener Development Fund use it or lose it allowance as per Special Condition 3.5 of the licence.</p> <p>The document should also adopt the same title as that provided for by Part B of Special Condition 3.5, i.e. the <u>Net Zero and Re-opener Development Fund Governance Document</u></p>
Cover page	<p>The words “as if it formed part of their licence” should be deleted. Special Condition 3.5 states that the licensee must comply with this document but it does not state “as if it formed part of its licence”. The inclusion of these words elevate the obligation to comply with the document to a licence condition and this is not the status of the document. The document is not written with the precision and clarity of obligation that is consistent with a licence condition.</p> <p>In addition, the document falls within the definition of “Associated Document” under the licence. The PCFH sets out a hierarchy applicable to Associated Documents, which are lower in the hierarchy than licence conditions and do not have the same effect.</p> <p>This document is therefore distinguishable from the PCFM and PCFH where the licence (Special Condition 8.1.2.) states that these documents do form part of the licence.</p>
Cover page	We suggest clarifying here that Special Condition 3.5 is the “NZARD Licence Condition” as, for instance, referred to in the review section on page 4.
Page 4	Gas Transmission comment - The terms “Gas Distribution Licence” and “Gas Transmission Licence” do not exist in the licence and are not defined in the guidance document. Relevant entities hold transporter licences (in respect of gas distribution and gas transmission / NTS respectively). We suggest that reference here is instead made to a DN Operator and the NTS Operator as such terms are each defined in standard special condition A3 of the GT licence.
Chapter 1	In accordance with the description of the allowance on page 90 of the Final Determinations Core Document, including no specific outputs set and a delivery date of 26 March 2026, we believe it is the intention that there is no restriction on when in the price control period the total NZARD Fund use it or lose it allowance can be used. To clarify this and remove any ambiguity, we suggest an additional paragraph (1.4) to confirm that the total allowances set out in para. 1.3 are available to be spent over the price control period rather than on a five-year split basis and that any UIOLI adjustment will accordingly look at spend across the price control period as a whole not on a regulatory year basis.
Chapter 2	<p>This chapter sets out costs that are included under the two categories of project described in 2.1.</p> <p>However, the chapter does not provide a definition of “allowable RDF expenditure” and “unrecoverable RDF expenditure” as is contemplated and provided for by Special Condition 3.5.8.</p>

	<p>The guidance should be updated to define these terms as contemplated by the licence to ensure that clarity is provided as to what expenditure is and is not to be allowed under the re-opener.</p>
Chapter 2	<p>Gas Transmission comment - Please can Ofgem clarify what expenditure under NZARD is permitted; is the £2m cap for the whole project expenditure or early development work only? 2.5 states NZARD shouldn't be used for capital projects expected to cost more than £2m and 2.9 states that early development work should not exceed £2m per project.</p> <p><i>2.5. GD and GT Network Licensees should not use the NZARD allowance for Net Zero facilitation capital projects expected to cost more than £2m. Such projects can instead be brought forward under other regulatory mechanisms, such as, the Net Zero pre-construction and small projects re-opener which is available to both the GD and GT sectors.</i></p> <p><i>2.9. NZARD expenditure in relation to early development work should not exceed £2m per project.</i></p> <p>Electricity Transmission comment – The ability to access the NZARD Fund use it or lose it allowance for “pre-FEED work” as set out in para 2.7 is helpful as projects enabling Net Zero are more likely to require expenditure to establish a needs case. To maximise the utility of this mechanism in the ET sector the <u>eligible reopeners set out in para. 2.8 should be expanded to include the Large Onshore Transmission Investment (LOTI) reopener</u> for projects >£100m, as the scope of Pre-Construction Funding (PCF) provided for these projects assumes that a need case (in the form of a Proceed signal from the ESO's Network Option Assessment) is already in place.</p> <p>The Final Determinations Electricity Transmission System Annex could be read to preclude pre-FEED work when setting the approach to baseline PCF funding. Para. 4.29 of the documents states that “<i>examples of inefficient expenditure may include expenditure on projects which had received a ‘Stop’, ‘Delay’, or equivalent signal in the Network Options Assessment (NOA) at the time the expenditure was incurred, or expenditure on projects where the main driver of the needs case had fallen away.</i>”</p> <p>Access to the NZARD Fund <u>for pre-FEED work on certain LOTI projects to establish a robust need case</u> is required for Net Zero projects >£100m.</p>
Chapter 3	<p>Please can Ofgem confirm that Chapter 3 represents the required reporting obligations as contemplated by Special Condition 3.5.8(c). If so, (i.e. reporting will be through established RIGS obligations) then it would be helpful for 3.1 of the guidance to confirm that this is the case and that no other form of bespoke reporting is being required by the guidance.</p>
Chapter 4	<p>MSIP: Please refer to Special Condition 3.14 of the ET licence</p> <p>The use it or lose it allowance is provided for / set out on the face of the licence as a result of the 3/2/21 Authority direction. It would be more accurate in this definition to refer to the allowance set out in Special Condition 3.5 (and replicated in Chapter 1 of this guidance).</p> <p>Net Zero re-opener. Please refer to the re-opener provided for in Special Condition 3.6.</p>