

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.

It sets out the arrangements for gas transmission and gas distribution network companies to use this re-opener – including details on the scope, process, and materiality thresholds.

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.

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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, general pre-construction work, and net zero facilitation capital projects that will enable the achievement of Net Zero Carbon Targets².

NZASP Governance Document

1.2. This document is the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document. It is issued by the Authority under Special Condition (SC) 3.9.6 of the Gas Transporter Licence. It sets out the governance and administration of this re-opener.

1.3. 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.

1.4. In this document "network licensee" means the holder of a gas transporter licence in relation to its gas distribution or gas transmission activities, regulated through the RIIO price control framework.

Compliance

1.5. Network licensees are required to comply with this governance document in accordance with SC 3.9.5.

¹ Gas Transporter Special Condition 3.9.

² As defined in Special Condition 1.1 of the Gas Transporter Licence

Review

~~1.6. Ofgem may from time to time, following consultation with network licensees and other interested parties, revise this NZASP Governance Document in accordance with Part B of SC 3.9.~~

~~3.0. The Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZASP)³ 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.~~

~~4.0. 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

~~9.0. 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.~~

~~10.0. 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.~~

³ Gas Distribution Special Licence Condition 3.9, Gas Transmission Special Licence Condition 3.9

~~11.0. 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.~~

Compliance

~~15.0. 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

~~18.0. 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.~~

19.2. Scope, Process and Materiality Thresholds

Scope and Eligible Projects

19.1.2.1. ~~The NZASP is an Authority-only triggered re-opener. The Authority can trigger the re-opener at any time and will do so by asking network licensees to submit a detailed application, in line with the Post-Trigger Detailed Assessment phase outlined in Table 1 below.~~

2.2. ~~The NZASP has a broad scope. Some examples of projects that may fall under the NZASP include:~~

- ~~• Early development, design and general pre-construction work that will enable the achievement of Net Zero Carbon Targets⁴;~~
- ~~• Front-End Engineering Design (FEED) studies, conceptual design pre-FEED and general feasibility work required for large capital projects;~~
- ~~• Net Zero projects that exceed the £2m materiality cap of the Net Zero and Re-opener Development Fund use-it-or-lose-it (NZARD UIOLI) or are otherwise not suitable for the NZARD UIOLI;~~
- ~~• Net Zero projects that do not meet the materiality⁵ threshold for the Net Zero Re-opener; and~~
- ~~• Net Zero facilitation (green gas and hydrogen) projects and hydrogen projects that are required as part of the Department for Business, Energy & Industrial Strategy 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 network consumers to fund.~~

19.2.–~~We may, over time, update the detailed scope of this re-opener in accordance with SC~~

- ~~• 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~~

⁴ As defined in Special Condition 1.1 of the Gas Transporter Licence

⁵ The materiality threshold for each network licensee if defined in Special Condition 1.1 of the Gas Transporter Licence

~~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 SC 3.9.~~

~~19.4.—Materiality Threshold~~

~~Materiality Threshold~~

~~Materiality Threshold~~

~~19.5.2.4. _____ The materiality threshold for this re-opener is £1m per project. Licencees may not achieve this threshold by aggregating different types of projects.~~

~~19.6.2.5. _____ The materiality threshold can be met through anticipated costs.~~

Process

~~2.6. There is a wide spectrum of projects that may come through this re-opener so applying a rigid, uniform process for it to be triggered may not be appropriate.~~

~~2.7. To achieve agility in our decision making, we will actively engage with relevant stakeholders to establish, 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 with further additional information below Table 1.~~

~~19.7.–~~

~~19.8. 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.~~

~~19.9. The key elements of the re-opener process are illustrated in Table 1 below.~~

Table 1: The NZASP re-opener Process

Pre-trigger Engagement Phase: exploring whether there is a needs case	
Step	Purpose
Engagement	<p>Active engagement to understand the project need and establish a needs case, in principle:</p> <ul style="list-style-type: none"> • <u>What is being proposed;</u> • <u>The project cost;</u> • <u>The aim of the project and evidence that it fits into wider strategic goals;</u> • <u>Why it is appropriate for this to be funded by network consumers through this re-opener, and how the funding should be treated from a regulatory point of view; and</u> • <u>The timelines for the project including its anticipated length and the submission dates for the detailed assessment phase (see below).</u> <p>This Engagement Phase will be informed, and developed, over time through engagement with the relevant stakeholders, including network licensees and government.</p>
Information gathering	<p>A process managed by Ofgem to draw out the key information above and any additional information to help establish the needs case.</p> <p>Where appropriate, Ofgem will provide further guidance on structures and templates for this information.</p>
Post-trigger Detailed Assessment Phase: after needs case, in principle, is established	
Step	Purpose
Licensee application	<p>For funding to be provided under the NZASP re-opener, the network licensee will need to submit an application to us.</p> <p>Unless otherwise specified by us, this should include:</p> <ul style="list-style-type: none"> • <u>A full needs case;</u> • <u>Detailed cost information, including cost/benefit analysis, and the proposed regulatory treatment of the costs;</u> • <u>An engineering justification paper; and</u>

	<ul style="list-style-type: none"> • <u>A policy justification paper, which explains why an adjustment to allowances is justified and how the project aligns with overall strategic aims.</u> <p><u>We may request that a specific proforma(s) is used for the application. We expect any specific proforma(s) to have been considered, and in some cases, developed through the 'engagement phase' above.</u></p> <p><u>As part of the 'engagement phase', we will work with network licensees to develop appropriate timelines for application submissions.</u></p> <p><u>The licensee application guidance provided above should be read in conjunction with the guidance provided in the RIIO-2 Re-opener Guidance and Application Requirements Document⁶.</u></p>
<u>Consultation</u>	<p><u>Based on the characteristics of the project we will determine whether a formal consultation is appropriate and the length of time we will consult for.</u></p> <p><u>This is in addition to the required consultation on the proposed funding decision.</u></p>
<u>Funding decision</u>	<p><u>The Authority makes a funding decision and directs the relevant changes.</u></p> <p><u>This will include a decision on the regulatory treatment of approved funding. Further information on this is below this table.</u></p>

Table 1: The NZASP Process

Net Zero Pre-construction Work and Small Projects Re-opener Process

⁶ https://www.ofgem.gov.uk/system/files/docs/2021/02/reopener_guidance_and_application_requirements_document.pdf

Before Authority Trigger: Engagement Phase	
Step	Purpose
Engagement	<p>Continuous engagement to understand:</p> <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	<p>A semi-structured process to draw out key information. Where appropriate, Ofgem will provide guidance on structures and templates for this information.</p>
After Authority Trigger: Assessment Phase	
Step	Purpose
Licensee application	<p>Unless otherwise specified, the licensee application will include:</p> <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	<p>Based on the characteristics of the project we will determine whether a formal consultation is appropriate and the length of time.</p>
Funding Decision	<p>The Authority makes a funding decision and directs the relevant changes.</p> <p>This will include a decision on the regulatory treatment of approved funding</p>

19.10. 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.

How we will assess the information submitted through the Detailed Assessment Phase

How we will assess the information submitted through the Detailed Assessment Phase

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

- The value of the work or project;
- The complexity of the work or project;
- How the work or project aligns with strategic policy aims; and
- Whether or not our funding decision will set a precedent for future projects.

2.10. Ofgem’s general approach to managing all RIIO-2 re-opener application assessments in a proportionate way, will be set out in a separate guidance document to be published in Summer 2021. This document is expected to include further information on how we will manage the applications pipeline and how we will assess applications in a proportionate way, including indicative timescales.

2.11. This document should be read in conjunction with this further guidance, once it is published.

Funding decision

2.12. We will engage network licensees throughout the process on the potential regulatory treatment of the approved funding and may:

- Require network licensees to share knowledge in a way which is broadly consistent with other innovation funding mechanisms;
- Adopt ‘Project Directions’ in a similar manner to the Network Innovation Competition (NIC) to record and hold licensees to account for specific deliverables; and
- Socialise approved funding across all consumers through issuing directions under this re-opener.

2.13. We may consider whether further licence changes are needed to support different regulatory treatments under this re-opener, for example:

- To direct a different split between upfront funding and longer-term fund (through the Regulatory Asset Value);
- Apply the Totex Incentive Mechanism to socialised costs; and
- Use a Price Control Deliverable.

2.14. If the licence is amended, we would expect to amend this governance document to provide further information on the regulatory treatment options under this re-opener.

~~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

~~We will engage Licensees throughout on the potential regulatory treatment of the approved funding and we may:~~

~~Require Network Licensees 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~~

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