

**To: All interested parties**

**Gas Act 1986  
Section 23(2)**

**Notice of statutory consultation on a proposal to modify the Special Conditions of the gas transporter licence held by the licensees listed in paragraph 1 below ('the Licensees')**

1. The following licensees are holders of a Gas Transporter Licence (the 'Licence') granted or treated as granted under section 7 of the Gas Act 1986 ('the Act'): Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc, Wales and West Utilities Limited (the 'Licensees').
2. The Gas and Electricity Markets Authority ('the Authority') proposes to modify the Special Conditions ('SpCs') of the Licence by amending SpC 3.18 Tier 1 Stubs Repex Policy Re-opener ('STUB<sub>t</sub>').
3. The effect of these proposed modifications is to enable the above re-opener allowances to be subject to a Price Control Deliverable ('PCD') in line with our Final Determinations on the Tier 1 Stubs Repex Policy Re-opener.
4. PCDs can be put in place to ensure licensees are held to account to deliver specific outputs. If an output is not delivered, or is not delivered to a specific standard, there is then a mechanism in place to refund consumers. Where there are cost and volume uncertainties around certain network activities, PCDs allow funding to be allocated for these works but protect consumers against unspent allowances.
5. RIIO-GD2 price control includes in-period re-opener windows for the Tier 1 Stubs Repex Policy Re-opener during which GDNs may submit applications for additional funding where a GDN incurs costs relating to the decommissioning of Tier 1 Stubs. As decisions on the re-openers are made during the price control period, they are to some extent based on estimated costs and workload volumes. There is therefore, without a means to clawback unneeded funds, a risk that consumers will over pay for the workloads the GDNs actually deliver. Assigning a PCD associated with the allowances awarded is a way to mitigate this risk and protect consumers from unnecessary costs. The PCD clearly defines what the Licensee has been funded to deliver and if the PCD is not delivered (or in some cases is only partially delivered) then the associated allowances will be clawed back and returned to consumers.<sup>1</sup>
6. Further detail on the reasons for the proposed modifications can be found in our RIIO-2 Tier 1 Stubs Repex Policy Re-opener Final Determinations 2025 document available on our website. The full text of the proposed modifications to SpC 3.18 is set out in Annexes 1-5, with the new text to be added shown double underscored and the text removed is struck through. The proposed changes are in line with other SpCs which contain PCD provisions.

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<sup>1</sup> More detail on PCDs can be found in Chapter 7 of RIIO-2 FDs - [RIIO-2 Final Determinations - Core Document \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/riio-2-final-determinations-core-document)

7. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)). Alternatively, they are available from [information.rights@ofgem.gov.uk](mailto:information.rights@ofgem.gov.uk).
8. Any representations with respect to the proposed licence modification/modifications must be made on or before 7 March 2025 to: Catherine Warrilow, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to [catherine.warrilow@ofgem.gov.uk](mailto:catherine.warrilow@ofgem.gov.uk).
9. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
10. If we decide to make the proposed modifications they will take effect not less than 56 days after the decision is published.

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**Nathan Macwhinnie**  
**Deputy Director Price Control Operations**  
**For and on behalf of the Authority**

**07 February 2025**

**Annex 1: Common modifications to 1.1.16 in Special Condition 1.1 held by Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc, Wales and West Utilities Limited.**

(New text is double underscored)

**Chapter 1: Interpretation and definitions**

**Special Condition 1.1 Interpretation and definitions**

**Part B: Definitions**

1.1.16

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Price Control Deliverable	means the outputs, delivery dates and associated allowances in Special Conditions 3.2 to 3.4, 3.6, 3.7, 3.10 to 3.13, <u>3.18</u> , 3.25 to 3.31 and 9.12.
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**Annex 2: Common modifications to Special Condition 3.18 in the licences held by Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks, plc, Southern Gas Networks plc, Wales and West Utilities Limited.**

(New text is double underscored and text removed is struck through)

## **Special Condition 3.18 Tier 1 Stubs Repex policy Re-opener (STUB<sub>t</sub>)**

### **Introduction**

3.18.1 The purpose of this condition is to calculate the term STUB<sub>t</sub> (the Tier 1 Stubs Re-opener term). This contributes to the calculation of the Totex Allowance.

3.18.2 The effect of this condition is to

(a) specify any Price Control Deliverable relating to Tier 1 Stubs Repex Policy developments;

(b) establish a Re-opener to be triggered by the licensee where the licensee incurs costs relating to the decommissioning of Tier 1 Stubs during the Price Control Period;

(c) provide for an assessment of the Price Control Deliverable specified in this condition.

3.18.3 This condition also explains the process that the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: What is the scope of this Re-opener Formula for calculating the Tier 1 Stubs Repex Policy term (STUB<sub>t</sub>)**

3.18.4—The licensee may apply to the Authority for a direction:

~~(a) adjusting the value of the STUB<sub>t</sub> term;~~

~~(b) amending the values in Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable); or~~

~~(c) amending the values in Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable)~~

~~for any Regulatory Year during the Price Control Period where the licensee incurs costs relating to the decommissioning of Tier 1 Stubs, which the licensee considers have been efficiently incurred and where those costs have not already been provided for by the special conditions of this licence.~~

3.18.4 The value of STUB<sub>t</sub> is derived in accordance with the following formula:

$$STUB_t = STUBO_t - STUBRO_t$$

Where:

STUBO<sub>t</sub> means the sum of allowances in Appendix 1; and

STUBRO<sub>t</sub> has the value zero unless otherwise directed by the Authority in accordance with Part D.

**Part B: ~~When to make an application~~ What is the licensee funded to deliver**

~~3.18.5~~ The licensee may only apply to the Authority for an adjustment under paragraph 3.18.4:

- (a) ~~Between 25 January 2023 and 31 January 2023; and~~
- (b) ~~during such later periods as the Authority may direct.~~

3.18.5 Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances associated with those outputs.

**Part C: ~~How should an application be made?~~ Tier 1 Stubs Repex policy Re-opener**

3.18.6 The licensee may apply to the Authority for a direction:

- (a) adjusting the value of the STUB<sub>t</sub> term;
- (b) amending the values in Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable); or
- (c) amending the values in Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable)

for any Regulatory Year during the Price Control Period where the licensee incurs costs relating to the decommissioning of Tier 1 Stubs, which the licensee considers have been efficiently incurred and where those costs have not already been provided for by the special conditions of this licence.

3.18.7 The licensee may only apply to the Authority for an adjustment under paragraph 3.18.4:

- (a) Between 25 January 2023 and 31 January 2023; and
- (b) during such later periods as the Authority may direct.

~~3.18.68~~ An application under paragraph 3.18.4~~6~~ must be made in writing to the Authority and must:

- (a) specify the additional costs relating to the decommissioning of Tier 1 Stubs;
- (b) give justification for the needs case of the proposal;
- (c) give engineering and cost justifications for the set of technical solutions for replacing Tier 1 Stubs;
- (d) provide detailed cost estimates for replacing the volumes included in the application supported by market assessment and cost scoping of materials, labour and equipment;
- (e) set out a proposed project timeline for replacing the volumes proposed in the application;
- (f) set out any amendments to the outputs, delivery dates or allowances in the Special Condition 3.10 or 3.11 that the licensee is requesting;
- (g) set out the adjustments to the value of the STUB<sub>t</sub> term that the licensee is requesting, and the Regulatory Years to which that adjustment relates;

- (h) explain the basis of the calculation for the proposed adjustments to the STUB<sub>t</sub> term or the allowances in the Special Condition 3.10 or 3.11; and
- (i) include such detailed supporting evidence including cost benefit analysis, impact assessments and engineering justification statements, as is reasonable in all the circumstances.

3.18.79 An application must:

- (a) be confined to costs that are incurred or are expected to be incurred on or after 1 April 2021; and
- (b) take account of any allowed expenditure which can be avoided as a result of the changes.

3.18.10 The following modifications to the licence may be made under this Re-opener:

- (a) modifications to the outputs, delivery dates and allowances in Appendix 1; and
- (b) modifications to the outputs, delivery dates and allowances in other special conditions of this licence.

3.18.11 Any modifications made under this Re-opener will be made under section 23 of the Act.

#### **Part D: What process will the Authority follow in making a direction? Assessment of the Price Control Deliverable (STUBRO<sub>t</sub>)**

3.18.12 The authority will, in accordance with the assessment principles set out in Part A of Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements), consider directing a value for STUBRO<sub>t</sub> where the licensee has not Fully Delivered an output in Appendix 1.

#### **Part E: What process will the Authority follow in making a direction?**

3.18.813 Before making a direction under paragraph 3.18.46 or 3.18.12, the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

3.18.914 A direction under paragraph 3.18.6 will set out

- (a) any adjustments to the value of the STUB<sub>t</sub> term
- (b) any amendments to Special Conditions 3.10 or 3.11; and
- (c) the Regulatory Years to which any adjustments to allowances under sub-paragraphs (a) and (b) relate.

3.18.15 A direction under paragraph 3.18.12 will set out:

- (a) the delivery status of the output that has not been Fully Delivered;
- (b) the value of the STUBRO<sub>t</sub> term and the Regulatory Years to which that adjustment relates; and

(c) the methodology and data that has been used to decide the delivery status and value of any adjustments to the STUBRO<sub>t</sub> term.

**Appendix 1**

**Tier 1 Stubs Repex Policy Price Control Deliverable Projects**

<u>GDN</u>	<u>Field</u>	<u>Description</u>

**Tier 1 Stubs Repex Policy Price Control Deliverable allowances by Regulatory Year (£m)**

<u>GDN</u>	<u>Output</u>	<u>Delivery date</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Total</u>

**Annex 3: Modifications to Special Condition 3.18 in the licence held by Scotland Gas Networks plc.**

**Appendix 1**

**Tier 1 Stubs Repex Policy Price Control Deliverable Projects**

<u>GDN</u>	<u>Field</u>	<u>Description</u>
<u>Sc</u>	<u>Projects</u>	<u>Total RIIO-GD2 allowance of £1.58m</u> <ul style="list-style-type: none"> <li>• <u>£1.16m baseline allowance</u></li> <li>• <u>£0.42m re-opener allowance</u></li> </ul> <u>152 stubs to be remediated over RIIO-GD2 with an average unit cost of £10,395/stub.</u>

**Tier 1 Stubs Repex Policy Price Control Deliverable allowances by Regulatory Year (£m)**

<u>GDN</u>	<u>Output</u>	<u>Delivery date</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Total</u>
<u>Sc</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.00</u>	<u>0.00</u>	<u>0.14</u>	<u>0.14</u>	<u>0.14</u>	<u>0.42</u>

**Annex 4: Modifications to Special Condition 3.18 in the licence held by Southern Gas Networks plc.**

**Appendix 1**

**Tier 1 Stubs Repex Policy Price Control Deliverable Projects**

<u>GDN</u>	<u>Field</u>	<u>Description</u>
<u>So</u>	<u>Projects</u>	<u>Total RIIO-GD2 allowance of £4.05m</u> <ul style="list-style-type: none"> <li>• <u>£2.53m baseline allowance</u></li> <li>• <u>£1.52m re-opener allowance</u></li> </ul> <u>225 stubs to be remediated over RIIO-GD2 with an average unit cost of £18,000/stub.</u>

**Tier 1 Stubs Repex Policy Price Control Deliverable allowances by Regulatory Year (£m)**

<u>GDN</u>	<u>Output</u>	<u>Delivery date</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Total</u>
<u>So</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.00</u>	<u>0.00</u>	<u>0.17</u>	<u>0.50</u>	<u>0.85</u>	<u>1.52</u>



**Annex 5: Modifications to Special Condition 3.18 in the licence held by Cadent Gas Limited.**

**Appendix 1**

**Tier 1 Stubs Repex Policy Price Control Deliverable Projects**

<u>GDN</u>	<u>Field</u>	<u>Description</u>
<u>EoE</u>	<u>Projects</u>	<u>449 stubs to be remediated with a unit cost of £9,400/stub</u>
<u>Lon</u>	<u>Projects</u>	<u>175 stubs to be remediated with a unit cost of £9,400/stub</u>
<u>NW</u>	<u>Projects</u>	<u>482 stubs to be remediated with a unit cost of £9,400/stub</u>
<u>WM</u>	<u>Projects</u>	<u>445 stubs to be remediated with a unit cost of £9,400/stub</u>

**Tier 1 Stubs Repex Policy Price Control Deliverable allowances by Regulatory Year (£m)**

<u>GDN</u>	<u>Output</u>	<u>Delivery date</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Total</u>
<u>EoE</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.35</u>	<u>1.26</u>	<u>0.84</u>	<u>1.10</u>	<u>1.10</u>	<u>4.65</u>
<u>Lon</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.02</u>	<u>0.34</u>	<u>1.15</u>	<u>1.05</u>	<u>0.77</u>	<u>3.33</u>
<u>NW</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.95</u>	<u>0.97</u>	<u>1.09</u>	<u>1.98</u>	<u>1.97</u>	<u>6.96</u>
<u>WM</u>	<u>Tier 1 Stubs remediations</u>	<u>31/03/26</u>	<u>0.09</u>	<u>1.02</u>	<u>0.67</u>	<u>2.24</u>	<u>1.88</u>	<u>5.91</u>