

# Consultation

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## National Gas Transmission Project Union Feasibility Phase Consultation

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We<sup>1</sup> are consulting on National Gas Transmission's (NGT)<sup>2</sup> proposed Project Union Feasibility Phase re-opener application. We would like views from people with an interest in gas transmission and distribution networks, and the adaptability of these for hydrogen. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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<sup>1</sup> The terms 'we', 'us', 'our' refers to the Gas and Electricity Markets Authority (the Authority). Ofgem operates under the direction and governance of the Authority.

<sup>2</sup> From 31 January 2023, National Grid Gas Transmission (NGGT) began to operate under a new name, National Gas Transmission plc (NGT). More information can be found here: <https://www.nationalgas.com/about-us/our-new-structure>

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## 1. Introduction

### Section summary

This section introduces our consultation for the Project Union feasibility phase re-opener application, submitted by NGT in December 2022.

### What are we consulting on?

- 1.1 We are consulting on our minded-to decision to fund the Project Union feasibility phase ('the Project'), proposed by NGT under the RIIO-2<sup>3</sup> Net Zero Pre-Construction and Small Projects (NZASP) re-opener found in Special Condition (SpC) 3.9 of NGT's Gas Transporter Licence.
- 1.2 Project Union aims to create a hydrogen transmission network in Great Britain to transport 100% hydrogen, connecting hydrogen production and storage with end users. NGT propose to repurpose existing gas transmission network infrastructure with minimal new infrastructure by the early 2030s. This re-opener application covers the feasibility phase of Project Union, looking at phasing strategy, pre-Front End Engineering and Design (pre-FEED) activities and hydrogen enabling activities over a 12-month period from January 2023. NGT claim the evidence and outputs from this Project will support future policy decisions related to the Net Zero energy transition.
- 1.3 NGT submitted an initial needs case for the feasibility phase of Project Union to us on 21 November 2022. Following our review of this, we considered that the Project should be progressed, and agreed to trigger the NZASP re-opener. As required by the NZASP Governance Document,<sup>4</sup> NGT submitted their NZASP application on 16 December 2022. This submission was also published on NGT's website on 22 December 2022.<sup>5</sup>
- 1.4 This consultation sets out our minded-to position on Project Union in the following areas:
  - The needs case
  - The Project design

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<sup>3</sup> RIIO stands for Revenues = Incentives + Innovation + Outputs

<sup>4</sup> <https://www.ofgem.gov.uk/sites/default/files/2023-01/NZASP%20Guidance%20v1.2.pdf>

<sup>5</sup> <https://www.nationalgrid.com/gas-transmission/about-us/business-planning-riio/our-riio-2-business-plan-2021-2026/our-riio2-reopener-applications-2021-2026>

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- The Project's value for money.
- 1.5 We are also consulting on our proposed directions to give effect to our minded-to decision, in accordance with SpCs 3.9 and 6.1 of NGT's Gas Transporter Licence.<sup>6</sup> Chapter 3 outlines the proposed project deliverables NGT will be committed to delivering as part of receiving funding under the re-opener. The proposed directions associated with these are contained in Appendix 2.
- 1.6 Following the close of this consultation, we will consider responses, and make our final decision on whether to fund this project, any conditions that may apply to NGT, and the final directions to give effect to our decision.

## Context and related publications

- 1.7 The scope of this consultation is limited to NGT's Project Union re-opener submission. Additional relevant information can be found in the following documents:
- RIIIO-2 Final Determinations<sup>7</sup>
  - RIIIO-2 Re-opener Guidance and Application Requirements Document<sup>8</sup>
  - NZASP Governance Document<sup>9</sup>
  - Special Conditions 3.9 and 6.1 of NGT's Gas Transporter licence.<sup>10</sup>

## Consultation stages

- 1.8 This consultation will run for 28 days and will close on 17 March 2023. We will review and publish the non-confidential responses after the consultation closes and publish our decision in due course.

## How to respond

- 1.9 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

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<sup>6</sup> Subject to the following licence modifications taking effect:

<https://www.ofgem.gov.uk/publications/decision-modifications-gas-transporters-riio-2-nzasp-re-opener-licence-conditions-and-nzasp-re-opener-governance-document>

<sup>7</sup> <https://www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

<sup>8</sup> <https://www.ofgem.gov.uk/publications/re-opener-guidance-and-application-requirements-document-0>

<sup>9</sup> <https://www.ofgem.gov.uk/sites/default/files/2023-01/NZASP%20Guidance%20v1.2.pdf>

<sup>10</sup> Licences available on the Electronic Public Register: <https://epr.ofgem.gov.uk/>

1.10 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.11 We will publish non-confidential responses on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations).

### **Your response, data and confidentiality**

1.12 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.13 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.14 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 3.

1.15 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

## General feedback

1.16 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

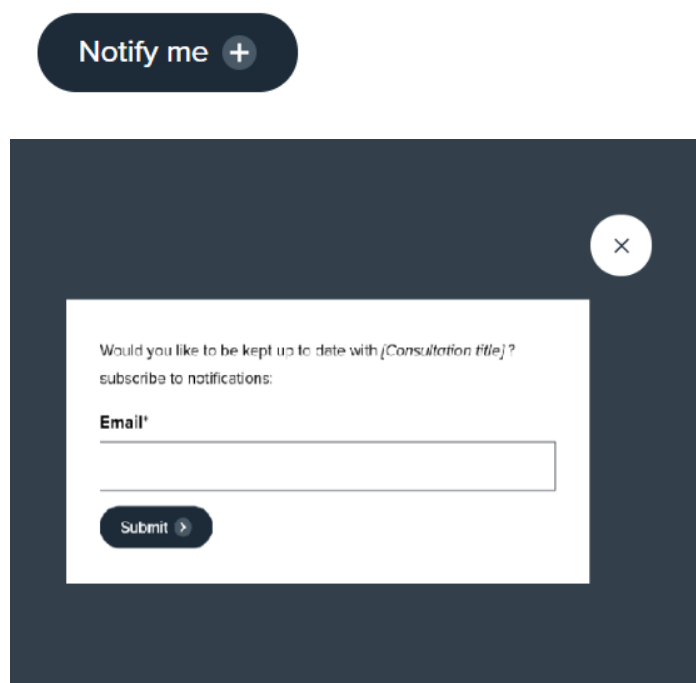
1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

## How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

**Upcoming** > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

## 2. Our assessment of the Project

### Section summary

In this section, we describe the background to the Project and set out our minded-to decisions on NGT's NZASP re-opener application. We are seeking views on the questions below.

### Questions

- Q1. Do you agree with our minded-to decision to approve funding for the Project under the NZASP re-opener mechanism, and at the value proposed?
- Q2. Do you agree with our assessment of the Project's needs case?
- Q3. Do you agree with our assessment of the design and efficient costs of the Project's work packages?
- Q4. Do you agree with our minded-to decision to reduce NGT's proposed contingency costs of 7.5% to 0%?
- Q5. Do you agree with our minded-to decision on the company contribution level?

### Overview

#### Why has Project Union been proposed?

- 2.1 The UK Hydrogen Strategy states low carbon hydrogen will be critical to achieving Net Zero by 2050.<sup>11</sup> In August 2021, the UK Hydrogen Strategy set a target of 5GW of production capacity by 2030. This was then increased to 10GW by 2030 through the British Energy Security Strategy in April 2022.<sup>12</sup> In December 2022, the Scottish Government set out ambitions to have 5GW of hydrogen production capacity in Scotland by 2030 and 25GW by 2045.<sup>13</sup>
- 2.2 The UK government consider that hydrogen transport infrastructure will be critical enablers for the growth in the hydrogen economy required to support our hydrogen ambitions, although the exact scale of the infrastructure that will be required is still to be determined. NGT has developed Project Union to consider if parts of the existing natural gas National Transmission System (NTS) could potentially be repurposed to support these ambitions.

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<sup>11</sup> <https://www.gov.uk/government/publications/uk-hydrogen-strategy>

<sup>12</sup> <https://www.gov.uk/government/publications/british-energy-security-strategy>

<sup>13</sup> <https://www.gov.scot/publications/hydrogen-action-plan/pages/3/>



## **Summary of NGT's proposal**

- 2.3 NGT propose that Project Union can deliver a hydrogen transmission backbone for the UK by phased repurposing of existing natural gas assets alongside some new infrastructure. This aims to create a hydrogen transmission network of 1500-2000km and will represent 25% of GB's current natural gas transmission pipelines.
- 2.4 The scope of this re-opener submission is for the feasibility phase of Project Union. NGT are requesting £7.912m (18/19 prices) over a 12-month period to deliver this.
- 2.5 NGT state the feasibility phase of the Project will deliver the following outputs over this 12-month period:
- A Phasing Strategy
  - Pre-Front End Engineering and Design (pre-FEED) activities for the entire proposed backbone, except for one section<sup>14</sup>
  - Hydrogen market enabling activities.
- 2.6 NGT are proposing to deliver pre-FEED studies for 9 sections of pipelines across GB at once rather than carrying out the pre-FEEDs sequentially. NGT claim this approach will enable them to develop a more informed, credible phasing strategy and pipeline routing earlier.
- 2.7 NGT have detailed their project programme which they have split into the following 13 work packages:
- Programme management
  - Technical delivery
  - Implementation strategy
  - Commercial frameworks
  - Supply chain
  - Regulation
  - Market needs analysis
  - Network modelling

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<sup>14</sup> Pre-FEED activities for the Teesside to Humber section are being undertaken separately within the East Coast Hydrogen project.

- Asset management plan
- Construction plan
- Engineering policy review
- Data collection
- Hydrogen policy.

## Our minded-to decision

2.8 We are minded to fund **£5.024m** of the £7.912m requested by NGT for Project Union’s feasibility phase.

2.9 A summary of our proposed adjustments can be found in Table 1 below.

**Table 1: Proposed cost adjustments**

<b>Cost category</b>	<b>NGT costs, 18/19 prices (£m)</b>	<b>Ofgem adjustments, 18/19 prices (£m)</b>	<b>Ofgem proposed allowances, 18/19 prices (£m)</b>
Programme management	0.339	-0.132	0.207
Technical delivery	1.270	0	1.270
Implementation strategy	0.859	-0.164	0.695
Commercial frameworks	0.332	-0.332	0
Supply chain	0.462	0	0.462
Regulation	0.343	-0.343	0
Market needs analysis	0.694	-0.281	0.413
Network modelling	1.051	0	1.051
Asset management plan	0.178	0	0.178
Construction plan	1.039	0	1.039
Engineering policy review	0.559	-0.559	0
Data collection	0.678	0	0.678
Hydrogen policy	0.108	-0.066	0.042
<i>Contingency*</i>	-	-0.453	-
<i>Contribution**</i>	0	-0.558	-
<b>Total</b>	<b>7.912</b>	<b>-2.888</b>	<b>5.024</b>

\*Reduction of 7.5% to 0% contingency on work packages to be partially or fully funded.

\*\*10% contribution calculated on £5.582m proposed allowance after adjustments.

2.10 We have set out our reasons for our minded-to position below.

## **Our assessment of NGT's proposals**

### **Needs case**

2.11 NGT stated within their re-opener submission that the feasibility phase of Project Union is aligned with UK and EU energy strategies and will help validate the hydrogen evidence base to enable informed government policy decisions on the future role of hydrogen. For example, NGT said that the Project will help inform government's decision on the role of hydrogen for heating by evidencing the feasibility of repurposing the existing gas NTS, including developing information on costs and potential routes, and supporting wider considerations including hydrogen supply chain readiness. They also said that the Project will help inform the development of a future hydrogen town pilot.

2.12 In their re-opener submission, NGT have highlighted engagement with a wide range of stakeholders across the natural gas and hydrogen value chains to develop the needs case and to identify challenges and questions to be addressed. NGT state Project Union will enable the decarbonisation of stakeholders such as power stations, industry outside of clusters that cannot electrify their production processes, and storage sites.

2.13 NGT also noted in their re-opener application that they commissioned independent analysis which supports their assertion that Project Union could provide optionality for future policy decisions on domestic heat and enable flexibility and supply resilience to demand.

2.14 We note there was extensive engagement between Ofgem and NGT prior to the formal re-opener submission, where the needs case of the project was initially discussed. Further to this initial engagement, we continue to agree with the overarching needs case for the Project Union Feasibility Phase project and the role it will play in developing the UK's hydrogen infrastructure to align with government policy.

2.15 Based on the information provided, we consider that undertaking the Project provides some clear direct benefits to natural gas consumers, who pay for the price control funding via network charges. We think the evidence created by parts of the Project will support government decisions on the future role of hydrogen, particularly through understanding the potential costs of hydrogen infrastructure

and determining which parts of the NTS may be suitable for repurposing. Repurposing these assets could benefit natural gas consumers through avoiding decommissioning costs and reduce the stranding risk of existing gas network assets. We think these potential direct benefits to natural gas consumers are proportionate to the cost, given the low materiality of the re-opener request.

### **Project design and efficient costs**

2.16 We consider NGT's project plan is broadly satisfactory. However, we do not consider that all costs and activities have been justified and/or fall within the scope of this re-opener.

2.17 We have set out our minded-to positions and rationale for accepting or disallowing the proposed costs and activities below.

#### Work packages

##### *Work packages we propose to fund*

2.18 Based on the information provided in NGT's NZASP re-opener submission, we think that the following work packages create evidence on the potential future use of the gas network and we are minded to accept these costs:

- **Supply chain** – will assess procurement needs for goods and services to enable the Project Union Front End Engineering and Design (FEED) stage (£0.462m)
- **Technical delivery** – will be responsible for delivering both technical and non-technical work packages for the feasibility phase (£1.270m)
- **Network modelling** – aims to demonstrate the potential to repurpose existing methane assets to blended or 100% hydrogen and assess what interventions are needed to maintain operability (£1.051m)
- **Asset management plan (AMP)** – developing an integrated AMP for the whole network during a methane to hydrogen transition (£0.178m)
- **Construction plan** – will consider construction implications, developing scope from the desktop feasibility assessments, development of the FEED work stage and developing cost estimations for options to be taken forward into FEED (£1.039m)
- **Data collection** – will define the data specifications for a future hydrogen network (£0.678m).

*Work packages we propose to partially fund*

- 2.19 Under the **programme management** work package (£0.339m), we propose to remove project workspace costs of £0.132m. These costs relate to the relocation of the Project team into one office. We consider relocation costs to be business as usual (BAU) operational expenditure, which should therefore be funded through NGT's RIIO-2 totex allowance. We propose to fund the remaining £0.207m of the work package, which relates to embedding project management processes and providing assurance and reporting for the Project.
- 2.20 The **implementation strategy** work package (£0.859m) aims to provide overall integration of the technical, non-technical and wider work packages. In relation to this work package, we propose to accept £0.695m of funding for this work package to develop the phasing and funding strategies for the FEED studies and for a Project Union Project Director. However, we propose to disallow £0.163m of costs relating to the 'submission of funding request documents for FEED' outcome within this work package, as it there hasn't been a clear justification to distinguish this work package from outcomes in other work packages. For example, the 'delivery of Hydrogen backbone pre-FEED study', 'development of technical and non-technical scope for FEED' and 'delivery of technical specification for procurement' success metrics appear to duplicate work within the technical delivery work package; and 'delivery of work packages for Feasibility Phase' appears to overlap with the programme management work package.
- 2.21 The **market need analysis** work package (£0.694m) aims to deliver a detailed hydrogen market analysis for current, new demand and production NTS customers. We propose to allow £0.413m to gather intelligence to feed into the business case, evidence base and transition plan, as we think this evidence is beneficial to understand the potential uses and benefits of Project Union. However, we propose to disallow costs for activities to have a "fully informed stakeholder landscape" (£0.281m) which focuses on centralised stakeholder and industry wide communications, publications and engagement around both Project Union and the broader benefits of hydrogen. We do not think it is value for money for natural gas consumers to fund communications around the potential future roles of hydrogen. It is not clear this work will create new evidence to feed into government thinking on the potential role of the existing gas network in relation to the future of hydrogen, nor develop evidence around how existing assets could be repurposed.
- 2.22 The **hydrogen policy** work programme (£0.108m) will look at identifying and influencing the impacts of relevant hydrogen policy on Project Union. We propose

to disallow the costs relating to evaluating, discussing, and developing new hydrogen policies (£0.042m) as we consider NGT should be engaging with this work as part of BAU. However, we consider that the 'review of existing policy on hydrogen in power, industry, transport and heat', which will outline the potential impact of these policies on Project Union, will create evidence that will be useful to inform the Project development. We therefore propose to allow £0.042m for this activity.

*Work packages we propose to disallow in full*

- 2.23 The **commercial frameworks** work package (£0.332m) will explore possible commercial framework for Project Union and be delivered by NGT's Hydrogen Gas Markets Plan. These costs relate to wider policy development about what an enduring hydrogen regulatory framework will look like and are intended to inform government's work to develop a hydrogen transport business model. Feeding into government hydrogen policy development is something that we would expect NGT, and other gas networks, to do without re-opener funding. We therefore propose to disallow all costs relating to this work package.
- 2.24 The **regulation** work package (£0.343m) aims to develop options for hydrogen regulatory framework, including planning for "RIIO-3". We propose not to allow any of the costs in relation to this work package. We consider that informing development of the regulatory framework, engaging with stakeholders on this work and developing business plans for the next natural gas price control are BAU activities and we expect network companies to fund these activities through their totex allowances. We also do not expect costs that could be funded through the upcoming hydrogen transport business model to be included in the next natural gas price control business plans.
- 2.25 The **engineering policy review** work programme (£0.559m) aims to propose policy structure, governance arrangements for technical approval, assess existing policies, identify priority policies to develop and work with industry to identify safety case requirements. It is not clear how this work differs to other work being already done by industry and why this is needed beyond existing activities underway in this area, so we propose to disallow the costs under this programme to avoid the duplication of work.

Contingency

- 2.26 NGT have proposed a 7.5% contingency level for this Project. NGT submitted a risk register (Appendix C to NGT's submission) and have noted the top 5 risks which have been a key consideration in establishing the contingency cost:

- The risk that the planning scenario doesn't reflect customer and stakeholder requirements due to insufficient data and information
- [redacted]
- [redacted]
- The risk that NGT have underestimated some of the external costs as they are not yet fully scoped
- [redacted].

2.27 We do not agree the contingency is justified. NGT have already [redacted] to mitigate against [redacted]. The feasibility stage of Project Union is also only a 12-month desktop study so we would expect relatively reliable cost estimates to have been developed. NGT have also said in the re-opener submission that they have engaged with a wide range of stakeholders to inform the project, so the risk that the planning scenario doesn't reflect customer and stakeholder requirements also appears to have been mitigated against appropriately.

2.28 We therefore propose to reduce the contingency rate to 0%.

#### NGT cost contribution

2.29 NGT have proposed no direct company contribution as part of this re-opener submission. Prior to the formal re-opener submission, we suggested it is appropriate to include a network contribution given the innovative nature of the deliverables, in accordance with paragraphs 2.10-2.13 of the NZASP Governance Document.

2.30 In their re-opener application, NGT made the following proposals in lieu of a contribution, which they said are intended to protect consumers from unnecessary cost:

- NGT will fully assume upward cost risk relative to the proposed funding request
- Ongoing efficiency commitment has been incorporated into costings, equivalent to 3.5% of total project costs
- Project costs are excluded from totex incentivisation and regulated asset value (RAV) capitalisation
- NGT propose any underspend at project end is fully returned.

2.31 The proposals for NGT to assume upward cost risk, for project costs to be excluded from totex incentivisation and RAV capitalisation, and for underspend to

be returned are inbuilt into the NZASP re-opener mechanism. We welcome that NGT have incorporated efficiency into their cost estimates, but do not think this justifies not providing a contribution.

- 2.32 Project Union is a substantially innovative project and is contributing toward the evidence base for future hydrogen use which is similar to many other innovation projects. Like innovation projects, the benefits to natural gas consumers are still uncertain as we do not know how widely hydrogen will be used at this stage. NGT could also receive substantial benefits from Project Union and the role out of hydrogen in general, so we think it is appropriate for them to share the risk. We also note similar projects have included a 10% compulsory contribution, such as Cadent's HyNet FEED<sup>15</sup> and SGN'S LTS Futures Project.<sup>16</sup>
- 2.33 We therefore do not think NGT's proposal to not provide a network is justified and propose to reduce the costs to reflect a 10% network contribution.

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<sup>15</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final\\_determinations\\_-\\_cadent\\_annex\\_revised.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determinations_-_cadent_annex_revised.pdf) - Chapter 2

<sup>16</sup> <https://www.ofgem.gov.uk/publications/sgn-lts-futures-project-decision>

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### 3. Proposed directions and deliverables

#### Section summary

This chapter sets out the key activities and evidence that NGT will be committed to delivering (“project deliverables”) as part of receiving funding for this project. It also includes the proposed direction for the Project, which will give effect to the future funding decision should our minded-to decision remain unchanged.

#### Questions

Q6. Do you have any views on the proposed project deliverables for NGT, and whether further deliverables are required?

Q7. Do you have any views on the proposed direction for the Project contained in Appendix 2?

#### Proposed direction

- 3.1 Under the NZASP re-opener, directions are issued by Ofgem to Gas Transporters to set out any adjustments to the value of NZP<sub>t</sub> or NZPS<sub>t</sub> as well as conditions to be followed by the licensee in relation to projects awarded funding. This includes how approved funding should be socialised across consumers, under SpC 6.1 of the NGT’s Gas Transporter Licence.
- 3.2 We are minded to fund **£5.024m** of the Project costs through NGT’s pass through mechanism using the NZPS<sub>t</sub> term, so the funding is excluded from totex incentivisation and RAV capitalisation (as opposed to providing funding through the NZP<sub>t</sub> term which forms part of totex). We think this approach is appropriate for a feasibility study, particularly as the long-term benefits to natural gas consumers are still uncertain. It is also consistent with how we have provided funding for similar hydrogen related projects, including the HyNet FEED study.
- 3.3 We note that SpC 3.9 and SpC 6.1 were amended as part of our decision on the statutory modification to the RIIO-2 Gas Transporters’ NZASP licence conditions published on 31 January 2023, which will take effect from 29 March 2023.<sup>17</sup> Part of these modifications enable NGT to request NZASP funding via the pass-through cost mechanism using the NZPS<sub>t</sub> term. As such, this minded-to position to fund

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<sup>17</sup> [Decision on modifications to the Gas Transporters’ RIIO-2 NZASP re-opener licence conditions and the NZASP Re-opener Governance Document | Ofgem](#)

the costs approve funding using the NZPS; term is subject to the licence modifications coming into effect.

### **Proposed project deliverables**

- 3.4 Project deliverables are project specific outputs, such as key activity milestones or evidence to be reported to Ofgem, which demonstrate delivery of the Project plan that funding is awarded for. These sit within the direction, meaning deliverables should be met as a condition of receiving funding through the re-opener and funding can be adjusted where Ofgem determines under or non-delivery of a project deliverable.<sup>18</sup>
- 3.5 In accordance with SpCs 3.9 and 6.1 of NGT's Gas Transporter Licence, we are consulting on the proposed direction for NGT to give effect to our minded-to decision. The proposed direction for NGT is set out in Appendix 2.
- 3.6 As part of this, and in accordance with the NZASP re-opener governance document, we are consulting on the proposed Project deliverables. We welcome views on the Project deliverables and may make clarifications or amendments to these as a result of the consultation. Prior to a decision being issued, NGT should indicate, in writing, that they will comply with the Project deliverables following any amendments made by Ofgem.
- 3.7 The table below contains the Project deliverables proposed by NGT as part of their re-opener application. Our proposed changes to the Project deliverables are in red below. To note, if any of the proposed deadlines are before our decision is issued, we may amend them as appropriate.

**Table 2: Proposed project deliverables**

<b>Reference</b>	<b>Proposed Project deliverable</b>	<b>Indicative deadline</b>	<b>Evidence</b>
1	Project Management	28/02/2023	Detailed Delivery Plan in place
2	Defined assumptions for modelling activity	31/03/2023	Proposed assumptions for modelling shared through Ofgem engagement sessions.
3	Strategic Options Paper	30/09/2023	Strategic Options Paper (this may be integrated into pre-FEED report)

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<sup>18</sup> Subject to a well-reasoned justification for under or non-delivery from the licensee.

**Consultation** - National Gas Transmission Project Union Feasibility Phase Consultation

4	Phasing Strategy	Initial: 31/03/2023  Updated: 31/10/2023	Initial Phasing Strategy shared through Ofgem engagement sessions  Updated Phasing Strategy document shared through Ofgem engagement sessions
<del>5</del>	<del>Existing internal engineering policies reviewed to determine priority</del>	<del>31/12/2023</del>	<del>Policy Review Report</del>
<del>6</del> 5	Pre-FEED studies complete	31/10/2023	Pre-FEED Report
<del>7</del> 6	Market Analysis Report	<del>28/02/2023</del> 31/10/2023	<ul style="list-style-type: none"> <li>•<del>Customer Surveys created</del></li> <li>•Market Assessment Report, including evidence of stakeholder engagement</li> <li>•Customer Impact Assessment</li> </ul>
<del>8</del> 7	FEED Scope Developed	31/10/2023	FEED Scope Document
<del>9</del> 8	Data Provision and Enrichment	31/03/2023	Data requirements specification for existing assets and provision methodology
<del>10</del> 9	Re-opener documents for FEED	31/12/2023	Re-opener submissions available for first sections moving to FEED stage.
<del>11</del> 10	<del>Regulatory Framework Development</del>	<del>31/12/2023</del>	<del>Regulatory Framework Report — detailing recommendations of options and next stages of development (note: there are likely to be a series of reports across the 12-month development period, as opposed a single report produced at the end)</del>
<del>12</del> 11	<del>Exploration of commercial framework for Project Union</del>	<del>31/10/2023</del>	<del>Final report published supported by webinars.</del>
<del>13</del> 12	Supply Chain Assessment	30/11/2023	Supply Chain Assessment Report
13	Submission of close-down report	01/01/2024	<p>This report should set out:</p> <ol style="list-style-type: none"> <li>a. How the Project Union Feasibility Phase has been successfully delivered, as set out in its re-opener application, and any instances of under or non-delivery.</li> <li>b. How the project learnings have been shared with relevant stakeholders.</li> </ol>

			c. Any further requirements set out in the Re-opener Governance Document.
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## 4. Next steps

### Section summary

This section summarises the next steps of our Project Union feasibility phase consultation process.

- 4.1 We welcome your responses to this consultation, both generally, and in particular to the specific questions in Chapters 2 and 3. Please send your responses to [catherine.warrilow@ofgem.gov.uk](mailto:catherine.warrilow@ofgem.gov.uk). The deadline for response is 17 March 2023.
- 4.2 After having considered all consultation responses, we will endeavour to conclude our assessment of NGT's re-opener application with a decision in due course.
- 4.3 Under SpCs 3.9 and 6.1 of NGT's licence, we will issue directions to set out any adjustments to the NZPS<sub>t</sub> term alongside our decision.

## Appendices

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## **Appendix 1 – Consultation questions**

Q1. Do you agree with our minded-to decision to approve funding for the Project under the NZASP re-opener mechanism, and at the value proposed?

Q2. Do you agree with our assessment of the Project's needs case?

Q3. Do you agree with our assessment of the design and efficient costs of the Project's work packages?

Q4. Do you agree with our minded-to decision to reduce NGT's proposed contingency costs of 7.5% to 0%?

Q5. Do you agree with our minded-to decision on the company contribution level?

Q6. Do you have any views on the proposed project deliverables for NGT, and whether further deliverables are required?

Q7. Do you have any views on the proposed direction for the Project contained in Appendix 2?

## Appendix 2 – Proposed direction to NGT

This appendix sets out our proposed direction for NGT.

To:

**National Gas Transmission plc ('NGT' or 'the Licensee')**

### **Direction under Parts A and C of Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener) and Part F (The Distribution Networks' and NTS' Net Zero Pre-Construction Work and Small Net Zero Projects Re-opener (NZPS<sub>t</sub>)) of Special Condition 6.1 (Transportation owner pass-through items (PT<sub>t</sub>)) of NGT's Gas Transporter Licence**

#### *General*

1. NGT is the holder of a licence granted or treated as granted under section 7 of the Gas Act ('the Act').
2. In December 2022, NGT submitted a Net Zero Pre-Construction Work and Small Projects Re-opener application for the feasibility stage of Project Union to consider how parts of the current gas National Transmission Systems could be re-purposed to carry hydrogen ('the Project').<sup>19</sup> On [17 February 2023] we consulted on our assessment and minded-to decision for this Project<sup>20</sup>. Having considered the consultation responses, on [XX XXXX] 2023, we published our decision and approved [£5.024m] (18/19 values) in funding for the Project.
3. This direction is issued pursuant to Parts A and C of Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener) and Part F (Adjustment for the Distribution Networks' and NTS' Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPS<sub>t</sub>)) of Special Condition 6.1. (Transportation owner pass-through items (PT<sub>t</sub>)). It sets out the approved funding, adjustments to the value of NZPS<sub>t</sub> and the Regulatory Years to which that adjustment relates, as well as the conditions to be met by NGT in relation to the Project, as a result of the application made under Special Condition 3.9 of its licence.

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<sup>19</sup> <https://www.nationalgas.com/about-us/business-planning-riio/our-riio-2-business-plan-2021-2026/our-riio2-reopener-applications-2021-2026>

<sup>20</sup> [link to consultation]



4. In accordance with Special Condition 3.9, the Gas and Electricity Markets Authority ('the Authority') published on its website the text of the proposed direction and stated that representations must be made on or before [17 March 2023].

5. We received [X] responses and have placed all non-confidential responses on our website. Having considered those responses, we have decided to proceed with making this direction.

6. [Address responses or refer to where that detail can be found. Explain why changes we have made to the proposed direction as a result of the responses].

Approved funding for the Project

7. The approved amount is [£5.024m], in 18/19 values. Further details on the funding value are set out in our decision published on [XX XXXX] 2023<sup>21</sup>.

8. The approved amount of [£5,024,000] NGT will be recovered by NGT, through NTS Transportation Owner Charges<sup>22</sup>. Annex 1 sets out the amounts to be recovered in each Regulatory Year and attributed to the Licensee. In addition to the funding approved, NGT will provide a contribution of [£558,000], in 18/19 values.

Project Funding Conditions

9. In accordance with Special Condition 3.9 and the NZASP Re-opener Governance Document, the Licensee must abide by the following conditions in undertaking the Project. It must:

- i. undertake the Project in accordance with the description set out in sections 6 and 8 of their re-opener application;
- ii. complete all the deliverables set out in Annex 2 of this direction; and
- iii. share the learnings from the Project, including publishing the learnings on NGT's website.

Notifications and close-down report

10. NGT must inform the Authority promptly in writing of any material event or circumstance likely to affect its ability to deliver the Project as set out in its submission.

11. At the end of the Project, NGT must submit a close-down report to the Authority setting out how it has completed the deliverables set out in Annex 2 below.

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<sup>21</sup> [link to decision document]

<sup>22</sup> As defined in Special Condition 1.1.15 of National Grid Gas' Gas Transporter Licence

12. If the Licensee fails to comply with a condition imposed by this Direction, the Authority will make use of this report in considering whether any funding should be returned to consumers, pursuant to Part A of Special Condition 3.9 of NGT’s licence.

*NOW THEREFORE,*

13. The Authority, pursuant to the provisions of Special Condition 3.9, Part F of Special Condition 6.1 and the NZASP Re-opener Governance Document, issues this Direction to NGT.

14. This Direction constitutes notice of reasons for the Authority’s decision pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.

[Signature]

Duly authorised on behalf of the Gas and Electricity Markets Authority

[date]

### **Annex 1: Funding value**

This annex sets out the amendments to be made to NGT’s licence. The figures below are expressed in 18/19 values.

#### **Special Condition 6.1 Part F Appendix 2**

Net Licensee Funding and Payments to Distribution Networks for Net Zero Pre-construction Work and Small Net Zero Projects (£m)

<b>Distribution Network/Regulatory Year</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
NGT National Gas Transmission plc	0.00	1.035	3.989	0.00	0.00	5.024

### **Annex 2: Project Deliverables**

This annex sets out our requirements that NGT will be held to account for delivering through this project. Should NGT be unable to meet these deadlines, they must notify Ofgem of this at least two weeks beforehand, setting out the reasons for the delay and a revised submission date.

[See Chapter 3, Table 2 of this document]

## Appendix 3 Privacy notice on consultations

### Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

#### **1. The identity of the controller and contact details of our Data Protection Officer**

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

#### **2. Why we are collecting your personal data**

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

#### **3. Our legal basis for processing your personal data**

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

#### **4. With whom we will be sharing your personal data**

We will not share your personal data with any third parties.

#### **5. For how long we will keep your personal data, or criteria used to determine the retention period.**

Your personal data will be held for six months after the project has closed.

#### **6. Your rights**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data

- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

**7. Your personal data will not be sent overseas**

**8. Your personal data will not be used for any automated decision making.**

**9. Your personal data will be stored in a secure government IT system.**

**10. More information** For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".