



SGN
Your gas. Our network.

Project Union Consultation:

Business model designs, regulatory arrangements, strategic planning and the role of blending.

SGN Response

March 2023



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Catherine Warrilow
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By email to Catherine.warrilow@ofgem.gov.uk
17th March 2023

Dear Catherine,

National Gas Transmission Project Union Feasibility Phase Consultation

Thank you for the opportunity to respond to your above consultation¹.

SGN is a gas distribution network that transports gas to 5.9 million customers in the Southern and Scotland licence areas. Our networks vary from the most densely populated regions of central London to the most sparsely populated regions of Scotland. As a distribution network, our pipework begins with our Local Transmission Systems (LTS), offloading gas from National Transmission Systems (NTS) to downgrade pressures and deliver to local towns and cities. With a clear and vital link between our networks, it is therefore important that our approaches to the future of gas remain aligned.

Having reviewed this consultation and National Gas Transmission's Re-opener application, SGN fully supports the application for Project Union. With the link between this project and our current Pre-FEED work, we believe an integrated approach is going to be key. In order to maintain this approach, it may be appropriate to add an explicit requirement within the re-opener to maintain engagement with gas distribution networks throughout the process. This would help ensure alignment of the different programmes of work. Current communications are through quarterly workshops which so far have been successful, this would remain our suggested means of engagement.

We have responded to questions where we can add value, should you require any further information with regards to our response then please do not hesitate to contact me at David.Handley@SGN.co.uk

Yours faithfully,

David Handley
Director of Strategy and Regulation
SGN

¹ [National Gas Transmission Project Union Feasibility Phase Consultation](#)



Chapter 2.

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?

SGN agrees that this is the correct mechanism to fund the project.

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

SGN would agree that this is an essential part of the process for the growth of a hydrogen network. There is a huge benefit in terms of connecting customers outside of clusters. Avoidance of asset stranding is also key.

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%?

We disagree. Risk is an important component of project management and should be quantified and reflected through an agreed and transparent methodology with an appropriate sharing of risk between project and the customers that will benefit from the project. A default assumption that risk or contingency should be reduced to zero supports a lack of transparency by encouraging project risk becoming hidden in different cost allocations.

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

We note that NGT have assumed upward cost risk associated with the project and are being asked to adsorb 10% compulsory contribution as well. We disagree that this is an appropriate balance of risk in the current environment of economic volatility. As with our submission above, it is our view that an appropriate and prescriptive approach to the allocation of risk (including the level of company contribution) should be adopted.

Chapter 3.

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?

Chapter 4. Next Steps