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17th March 2023

Dear Catherine,

Wales & West Utilities Limited (WWU) response to WWU response to OFGEMs consultation on Project Union Feasibility Phase

Thank you for the opportunity to respond to the consultation, we have only responded to some of the questions in the consultation and our response is not confidential.

Wales & West Utilities is a gas transporter serving 2.5 million supply points in Wales and south-west England.

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?

We agree that the NZASP re-opener is an appropriate mechanism for funding this work.

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

We note the statement in paragraph 2.15 in Ofgem's consultation:

"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."

Table 2, Proposed project deliverables, strikes out the funding for the regulation and commercial cost packages. It is not clear whether Ofgem's view is that these work packages are not necessary at all or whether they are necessary but that they should be funded by NGT without re-opener funding. This latter interpretation is our understanding of the paragraphs 2.23 and 2.24.

Wales & West Utilities Limited

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2.23 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 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.

Given the recognition that there are some clear direct benefits to natural gas customers we do not understand why Ofgem is not funding the regulatory and commercial cost categories. There is no point in establishing that some natural gas transmission pipelines can be physically repurposed for hydrogen if the regulatory and commercial arrangements are not in place to enable them to be used. We agree that this work only needs to be done once for hydrogen transmission pipelines, but it does need doing if these pipelines are to become a reality. If Ofgem is not willing to fund the work under this project, we suggest that Ofgem makes clear its position, which we believe should recognise that the regulatory and commercial cost packages are an essential part of the energy transition and should be fully funded through mechanisms designed to support such activity at an appropriate time.

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

No, we do not.

We understand the logic of a company contribution to an innovation project if that company could make additional profits should the innovation be successful; however, this does not apply in this case. This project is looking at developing a national hydrogen transmission network. Should any hydrogen pipelines be constructed by National Gas as part of its regulated gas transportation business then they would be funded by the prevailing price control mechanism at the time. The current arrangements set the revenues that can be earned and so it is not clear how National Gas could receive **substantial** benefits from Project Union, they would receive a return that the regulator considered reasonable at the time the relevant price control was set.

The ways in which a gas transporter could benefit from an innovation project are:

- out-perform against totex allowances;
- reduce totex costs,
- earn non-formula revenue;

all of which benefit consumers, however, none of the above apply to this project.

Yours sincerely,



Carly Evans
Head of Regulation
Wales & West Utilities