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Consultation

Western Gas Network Project – Needs Case Consultation

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Response deadline:	11 November 2021	**Tel:**	020 7901 7000
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We are consulting on our views on the needs case assessment for the Western Gas Network Project. We would like views from any stakeholders with an interest in Gas Transmission network investment projects to support additional capacity. We particularly welcome responses from network companies, gas shippers, consumer groups, 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**. 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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Executive summary

The Western Gas Network Project

In July 2021, we received a needs case submission from National Grid Gas plc (NGGT) for the proposed Western Gas Network (WGN) project to meet South Hook LNG Gas Company LTD (the customer) request for additional capacity. If the project goes forward it would see significant investment on new pipelines and uprating existing pipelines and compressors between Milford Haven and Churchover. The reinforcements are expected to facilitate an additional 163GWh/d of additional Entry Capacity to help ensure that greater supplies of liquefied natural gas ("LNG") can enter the GB gas grid, bolstering GB security of supply.

To secure the additional capacity, a financial contribution is required from the customer.[1] In this case, the financial commitment made by the customer would represent a material contribution to the estimate costs of the preferred option for this project.[2]

The RIIO-T2 process

NGGT's needs case submission is the initial stage of the Funded Incremental Obligated Capacity (FIOC) Re-Opener process under the RIIO-T2 gas transmission price control. These arrangements are outlined in Special Condition 3.13 Funded Incremental Obligated Capacity Re-opener and Price Control Deliverable (FIOCt and FIOCREt) of NGGT's Gas Transporter Licence[3] and the related RIIO-2 FIOC Guidance and Submissions Requirements Document.[4] If we approve the needs case, NGGT will move on to develop detailed designs and embark on initial pre-construction work before submitting to us, in 2023, a detailed funding request. We will also consult on this funding request before making our final decision.

This consultation seeks stakeholders' views on our minded to position to approve NGGT's WGN needs case, which will enable NGGT to seek final funding approval in 2023.

[1] Through the allocation of capacity prior to the start of construction (Planning and Advanced Reservation of Capacity Agreement Phase 3).
[2] This is calculated in accordance with the Entry Capacity Release Methodology Statement.
[3] https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf
[4] See Figure 1 https://www.ofgem.gov.uk/sites/default/files/docs/2021/03/fiocr_guidance_document_apr_21_clean_0.pdf

Funded Incremental Obligated Capacity (FIOC) Needs Case assessment

NGGT's needs case submission sets out a range of potential options to meet their customer's request. Based on this evidence, we are minded to accept that NGGT has met the requirements of the FIOC licence to demonstrate that there is a need for additional capability and that they should move onto the next stage of the FIOC process to develop a final design and investment proposal for our approval.

Of the options presented, our initial view is that NGGT's current preferred option delivers the most benefit to consumers with the least intervention on the network and lowest capital cost. In our assessment, we took into consideration cost-benefit analysis and project delivery plans. We also considered the future of gas networks as part of the wider net zero strategy. We have identified some construction and delivery risks related to the preferred option, which we expect NGGT to take into account in any future submissions.

Next Steps

We welcome responses to our consultation, in particular to the specific questions we have included in Chapters 3 and 4. Please send your response to: gasnetworks@ofgem.gov.uk by 11 November 2021. We expect to publish our final decision on the needs case for WGN in late 2021 or early 2022.

1. Introduction

What are we consulting on?

1.1. This consultation sets out our minded to position to approve NGGT's needs case for investment to provide additional entry capacity under this Re-opener.[5]

1.2. To reach this position we have assessed the need for (and future regulatory treatment of) proposed additional entry capacity at the Milford Haven Aggregated System Entry Point (ASEP).[6] The project is referred to by National Grid Gas plc (NGGT) as the Western Gas Network Project (WGN) project. In July 2021, NGGT submitted the needs case application under the RIIO-T2 Funded Incremental Obligated Capacity (FIOC) Re-Opener process.[7]

1.3. This Chapter provides an overview of the context of this submission and the consultation process we are carrying out to reach our final decision.

1.4. Chapter 2 summarises the FIOC Re-Opener process.

1.5. Chapter 3 summarises the WGN project itself, the reasons it was brought forward and NGGT's preferred option.

1.6. Chapter 4 summarises our assessment of NGGT's needs case submission, including whether the project could be funded by the RIIO-2 late competition models.[8]

1.7. Chapter 5 summarises the next stages of both our assessment and the WGN project.

[5] The Authority's approval is required by Special Condition 3.13.9(a) as a pre-requisite before applying for a FIOC Project Direction to specify outputs, delivery dates and allowances for the proposed investment.
[6] Point comprising one or more system entry points at which gas shippers can buy entry capacity.
[7] https://www.nationalgrid.com/uk/gas-transmission/wgn
[8] Paragraph 10.92 of RIIO-2 Sector Specific Methodology Decision – Core Document

Context and related publications

1.8. The GB gas transmission network is currently planned, constructed, owned, and operated by NGGT. We regulate the Gas Transmission sector through the RIIO-T2 (Revenue = Incentives + Innovation + Outputs) price control framework.

1.9. NGGT is currently regulated under the RIIO-T2 price control, which started on 1 April 2021 and will run for 5 years. Under this price control, we developed a mechanism for assessing the need for, and efficient cost of, large and uncertain gas transmission reinforcement projects. Please see NGGT's Gas Transporter Licence, Special Conditions[9], our RIIO-2 Final Determinations[10] and FIOC Guidance and Submissions Requirements Document[11] (which we refer to as the "FIOC Guidance" in this consultation document) for additional information and requirements for the process.

1.10. Figure 1 shows the stages of this consultation.

Figure 1 - Consultation Stages

[9] https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf
[10] RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator: RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem
[11] RIIO-2 FIOC Guidance and Submissions Requirements Document: RIIO-2 FIOC Guidance and Submissions Requirements Document | Ofgem

How to respond

1.11. 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.

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

1.13. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.14. You can ask us to keep your response, or parts of your response, confidential. We will 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.

1.15. 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 will 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.

1.16. 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 4.

1.17. If you wish to respond confidentially, we will keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We will not 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

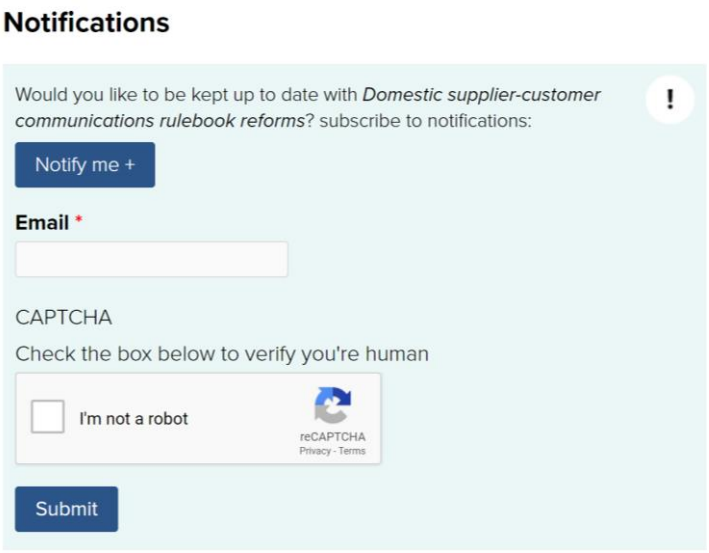
1.18. We believe that consultation is at the heart of good policy development. We welcome any comments about how we have run this consultation. We would also like to get your answers to these questions:

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?

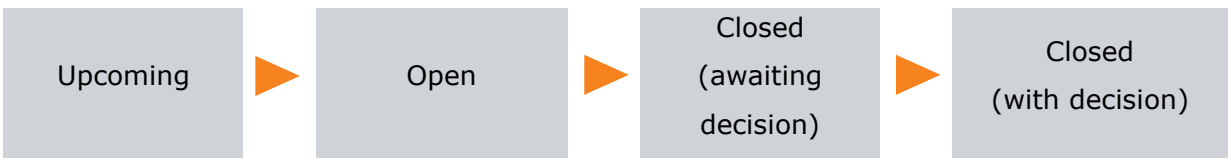
Please send any general feedback comments to stakeholders@ofgem.gov.uk

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.



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:



2. The FIOC Re-opener Mechanism

Section summary

This Chapter gives an overview of the FIOC mechanism and our assessment process.

Overview of the Funded Incremental Obligated Capacity (FIOC) Mechanism

2.1. NGGT is the owner and operator of the National Transmission System (NTS) and it is funded to provide Obligated Entry Capacity and Obligated Exit Capacity[12] through its price control settlement. Where customers of NGGT wish to buy additional capacity above the existing levels of obligated capacity (known as Incremental Obligated Entry Capacity and Incremental Obligated Exit Capacity), they will submit a Planning and Advanced Reservation of Capacity Agreement (PARCA) application to NGGT. NGGT will assess applications under the PARCA process and, if eligible, will produce options for delivery of additional capacity to the NTS. The options are to: reinforce the network, offer spare capacity from local existing entry and exit points (substitution), or to take on the constraint risks associated with releasing the capacity with no additional network reinforcements.

2.2. In the event a request for additional capacity cannot be met through substitution, NGGT is able to request funding for new capital investment required to provide Incremental Obligated Entry Capacity or Incremental Obligated Exit Capacity under the FIOC Re-opener by submitting a needs case submission, followed by an application for a FIOC Project Direction. If an application is approved by Ofgem, NGGT will be funded to deliver an output by the date specified, as a Price Control Deliverable.

2.3. Figure 2 shows the indicative timeline of the WGN project covering the stages required for Ofgem approval and key milestones for NGGT. Ofgem's touchpoints with NGGT within this process are the Needs Case and Project Direction stages, as detailed below. Following these

[12] As defined in NGGT's Gas Transporter Licence Special Conditions.

review stages the project is expected to enter its construction stage, and the requested capacity is expected to become available to the customer in early 2026.

Figure 2 - Indicative WGN Timeline

Stages of our FIOC assessment

2.4. The FIOC process consists of two main stages: the needs case assessment and the Project Direction.Our FIOC Guidance includes the details of the process to be followed, as well as the specific information we require to be submitted at each Ofgem review stage.[13]

Stage 1: Needs Case Assessment

2.5. The purpose of the needs case assessment stage of the FIOC Re-opener is for NGGT to provide Ofgem with a detailed view of the project and its associated timings. Ofgem will assess the need for the project using the information submitted by NGGT and by engaging with them on specific issues. The Authority will then decide whether or not to approve the needs case.

Stage 2: Project Direction

2.6. NGGT may apply to Ofgem for project funding once it has obtained Ofgem's approval of the needs case for its proposed project and (unless Ofgem otherwise directs) once it has secured any material planning consents and completed its options selection process.

2.7. During both stages, we expect NGGT to provide specific information and evidence that are relevant to the project at each stage. These are detailed in the FIOC Guidance. Submissions must include a suitable narrative to explain clearly the information and must be

[13] RIIO-2 FIOC Guidance and Submissions Requirements Document: RIIO-2 FIOC Guidance and Submissions Requirements Document | Ofgem

based on robust quantifiable evidence. Applications must be submitted in a specific format and must meet the specific requirements of the FIOC Guidance.

2.8. In addition to the above, we require NGGT to engage in advance of the project direction stage, regarding any material changes compared to the approved needs case submission. This could include changes to the project need, cost and supporting evidence. We expect the project direction submission to comply with the requirements as set out in the FIOC Guidance. This includes ensuring that it should be well-structured, evidenced and justified to provide a robust case for the costs, and their drivers, to be funded. Information on costs is to be submitted in a navigable format.

2.9. Based on NGGT's Needs Case submission we currently aniticpate the Project Direction submission will be made in Q1 2023.

3. NGGT's Western Gas Network Project Needs Case Proposal

Section summary

This Chapter summarises the analysis undertaken by NGGT to conclude the best option for the additional capacity in the network.

Questions

Question 1: Do you have any views on NGGT's approach to the options selection process? This might include NGGT's use of the Future Energy Scenarios (referred to by NGGT as "FES") as the basis for forecasting of gas flows and constructing its cost benefit analysis ("CBA"), and whether 2035 is an appropriate cut-off date for assessing the CBA for this project?

Overview of NGGT's Proposal

3.1. NGGT's proposal is driven by a request for additional entry capacity at the Milford Haven ASEP for 163GWh/d, from the current 950GWh/d.[14] This represents a 17% increase on the existing obligated baseline. NGGT has examined various options and arrived at a preferred strategic option. This option requires the least new infrastructure and has the least impact on local communities and the environment. According to NGGT's analysis, the preferred option would be the most economic and efficient solution for consumers, as it would combine the minimum capital cost with the greatest consumer benefit.

Why has the project been brought forward?

3.2. Liquefied natural gas (LNG) is produced by cooling natural gas until it is a liquid, allowing it to be transported and stored. There are three LNG Terminals in the UK; Grain LNG

[14] Appendix 1, Licence Baseline Entry Capacity of Special Condition 9.1 of National Grid Licence

(Isle of Grain, Kent), South Hook LNG and Dragon LNG terminals (both located in South Wales). These terminals allow the UK to access gas traded on a global LNG market.

3.3. The South Wales Gas Pipeline (also known as the Milford Haven pipeline) is the UK's largest continuous high-pressure gas pipeline. It consists of a 197-miles pipeline passing through Wales and links Dragon and South Hook LNG terminals at Milford Haven, Pembrokeshire with the national gas network at Tirley, Gloucestershire. South Hook LNG terminal is the largest LNG terminal in Europe. Combined with Dragon LNG terminal, it can supply up to 25% of the UK's demand in gas.

3.4. Based on data submitted to us by NGGT, 11.39% of GB's gas supply entered via Milford Haven during the RIIO-T1 period, with this figure reaching an average of 15.51% in the final two years of the price control. The Milford Haven ASEP saw its peak entry flow to date of 940GWh/d in 2020. In 2020 and 2021 there have been a number of commercial actions undertaken by NGGT to mitigate entry constraint risks at Milford Haven, including turn-down contracts and locational sell actions.

NGGT's options selection process

3.5. NGGT identified over 70 strategic options as well as a counterfactual 'no investment' option. The latter is the management of constraints on the existing network with no network reinforcements and no changes to commercial contracts or regulatory frameworks. The long list of potential options were filtered using technical and economic parameters to a shortlist of 11 options. These options cover a range of reinforcements, including new compression, new pipelines and pressure uprating of existing pipelines. NGGT appraised each of the shortlisted options based on environmental, socio-economic, technical and capital cost parameters.

NGGT's Cost Benefit Analysis (CBA)

3.6. NGGT completed a CBA process to consider the different benefits of each shortlisted option to consumers. This analysis was based on FES 2020 scenarios, taking into account various factors and assumptions for each of the shortlisted options. The details of the CBA are included in the needs case submission.

3.7. In summary, the CBA examined and analysed:

- Absolute and relative Net Present Value (NPV) against four FES 2020 scenarios
- Absolute and relative NPV, with an analysis end date of 2035

- Sensitivity analysis on increases and decreases of constraint and investment costs

3.8. The CBA concluded that there were three potential lead options when considering all four FES scenarios over the lifetime of the project. The options were:

- F6.1 – Installing 37km of pipeline, increasing the Maximum Operating Pressure of the existing pipeline, modifying existing compressor stations and building new valve stations

- F6.6 – Installing 11km of pipeline, increasing the Maximum Operating Pressure of the existing pipeline, modifying existing compressor stations and modifying valve stations

- F7.1 – Installing 125km of pipeline, modifying existing compressor stations and building new valve stations

3.9. The analysis by NGGT of these options found a natural break in the CBA around 2035 where, due to construction timelines and planning restrictions, it would be feasible to significantly expand the selected option. After 2035 the constraint costs between each of the shortlisted options are predicted to diverge with the higher cost/longer pipeline length options performing better.

3.10. Option 6.1 contains all of the works proposed by option 6.6 and increases the capacity of the system by installing additional pipework. Option 7.1 proposes installing an entirely new pipeline.

3.11. This finding, where all the shortlisted options provide broadly the same benefit up until 2035 but require very different capital expenditure (capex) values, presents the opportunity to consider "incremental" upgrades to the pipeline system over the next 20 years. As an example of the potential incremental approach, the scope related to option F6.6 could be installed in the late 2020s with a second decision to install additional pipeline lengths associated with option F6.1 deferred until mid 2030s. For this particular part of the network there would be very little overlap or regret spend associated with taking a incremental approach to expansion. Taking the incremental approach does however create a window of time for policy around the future use of the gas system to develop and allow a more robust decision to be taken on expansion at a later date.

Justification for NGGT's preferred option

3.12. NGGT's preferred option (Option F6.6) included uprating of Feeder 28 and installing 11km of new pipeline. The key points of this option are:

- Increasing the Maximum Operating Pressure (MOP) of part of the existing Feeder 28 pipeline between Felindre and Three Cocks and the section from Felindre to Cilfrew. This task is currently expected to only require limited changes to pipework;

- 9km of new pipeline between Wormington and Honeybourne and 2km of new pipeline between Churchover Compressor and Churchover Multijunction; and

- Related works at several existing Above Ground Installations (AGIs) and compressor stations to facilitate the higher flows, pressure uprating, connection of new pipelines and effective compression at existing stations.

3.13. NGGT identified variations to the Option F6.6, under the assumption that the Wormington Compressor Emissions project[15] would deliver two new 17.5MW gas turbine compressors available from 2028. For the purposes of the CBA, 32.5MW of compression capacity at Wormington was assumed to be available from January 2025. NGGT was able to outline two variations from the optioneering process, to represent a incremental approach to increase capability in the future.

3.14. NGGT's preferred option maximises capability at the demand levels where it was needed most, while minimising the investment required. NGGT concluded that pursuing an incremental approach to the investment would be the best way forward. This was the result of the CBA analysis when considering constraints up to 2035. The preferred option delivers the additional capability required in the short term, and also retains the option to expand this if required whilst avoiding the risk of over-investment. The value of this flexible approach has been assessed and is estimated to outperform the other options in the majority of FES scenarios.

[15] As detailed in NGGT's RIIO-2 Business Plan: https://www.nationalgrid.com/uk/gas-transmission/about-us/business-planning-riio/our-riio-2-business-plan-2021-2026

4. Ofgem's Western Gas Network Project Needs Case Assessment

Section summary

This section covers our assessment of NGGT's Needs Case submission, covering the overall needs case, options selection, stakeholder engagement and net zero.

Question 2: Do you agree with our minded to position to approve the needs case, allowing NGGT to proceed to the next stage of the FIOC Re-opener process?

Question 3: Do you agree that this project is compatible with Government's commitment to achieve net zero emissions by 2050?

Question 4: Do you agree that NGGT's current preferred option represents an appropriate balance between delivering the required level of capability whilst limiting investment costs?

Our Assessment of NGGT's Proposals

Our view on the general needs case

4.1. Overall, we are satisfied that NGGT has demonstrated a need to invest to meet the requirements of the customer's PARCA request.

4.2. NGGT has demonstrated that the capacity requirements of the project cannot be met by Capacity Substitution due to the relative isolation of the Milford Haven ASEP on the network.

4.3. NGGT also set out its view on whether or not this project would fall under the criteria for late competition (new, high value and separable) as set out in Chapter 9 of our RIIO-2 Final Determinations Core Document.

4.4. Whilst Option F6.6 has two runs of pipeline which could be considered to be 'new', these are not valued above £100m and therefore do not meet the criteria for being high

value. Based on the information provided, we agree that this project would not meet the criteria for late competition.

Our view on NGGT's options selection process

4.5. We believe that NGGT has followed a satisfactory selection process and identified a sensible list of options for this project, considering a diverse range of options ranging from no investment and utilising existing infrastructure, through to new pipelines on land and undersea.

4.6. Overall, our view is that NGGT took the correct approach in identifying feasible options to meet the capacity requirements of this project. However, we note that the options selection process is not yet complete and further work is needed before the scope is well enough defined to allow an option to be selected.

Our view on NGGT's CBA process

4.7. NGGT has applied a similar CBA approach to that seen in its RIIO-2 Business Plan submission. The downsides of not investing are monetised as constraint costs due to the unavailability of capacity. NGGT then compares each investment option against this counterfactual.

4.8. Whilst we still have some reservations about the levels of constraint costs forecast by NGGT's modelling being higher than what is actually realised on the NTS on an annual basis, we accept that this methodology gives a useful tool to compare the relative merits of each investment option. We would expect this methodology to continue to be developed and tested via NGGT's Annual Network Capability Assessment Report (ANCAR) process.

Our view on NGGT's preferred option

4.9. Our view is that NGGT has chosen a sensible preferred option F6.6 at this stage in their project process. However, there are still some outlying issues that need to be resolved to confirm that this is actually feasible in its proposed state and continues to represent the best value out of the current options.

4.10. NGGT's preferred option is Option F6.6, which maximises use of existing assets to deliver additional capacity and minimises the requirement for newbuild pipelines. This approach reduces the length of pipeline needing to be installed below 40km in length, the

threshold that would necessitate an Environmental Impact Assessment (EIA) for the project.[16] The lack of need for a EIA highlights the relatively limited impact on the surrounding area this project will have and reduces the time and cost of securing the required consents.

4.11. However, to avoid installing long lengths of additional pipeline NGGT will need to increase the maximum operating pressure of a significant length of existing pipeline and associated AGI pipework. Increasing the maximum operating pressure of pipelines/pipework is an activity that requires detailed analysis of the pipeline/pipework. There is the potential for the analysis to prove that sections of the pipeline or AGIs can not be uprated because of the condition or installation of the existing equipment. This detailed analysis has not yet been undertaken but is planned for Q4 2021 and will be informed by an in line inspection of the pipeline currently being planned for 2022. The current unknown outcome of the analysis presents a major cost and schedule risk to delivering option F6.6.

4.12. We have also identified that there is some overlap between this project and the Wormington Compressor Emissions project. NGGT intends to re-wheel the existing compressors at Wormington as part of Option F6.6, however some of these units have been considered for replacement as part of the Wormington Compressor emissions project. We have some concerns that replacing units for compressor emissions less than 5 years after they have been re-wheeled may be an inefficient overall approach, and that there may be more efficient means of delivering the WGN project whilst avoiding the need to dispose of recently re-wheeled compressors to meet emissions compliance legislation.[17] NGGT should explore means of avoiding this inefficiency as these two projects progress to their final option selection stage, and where this is not possible give clear reasoning in the relevant submissions.

4.13. NGGT has presented a project plan to deliver the works included in option F6.6. Currently it is our view that the plan presents an optimistic view on the total construction duration with a greater potential for it to extend rather than contract because of the current level of definition on some construction activities. The maturity of a project plan for this type of project will, however, develop as the team move through the project process, therefore gaps in knowledge are to be expected at this time. It is expected that the project team will

[16] Information on the EIA process is available here: Environmental Impact Assessment - GOV.UK (www.gov.uk)
[17] This is in relation to the Medium Combustion Plants Directive, further information available here: Medium combustion plant and specified generator regulations - GOV.UK (www.gov.uk)

have to complete further work on items that could influence the plan duration such as: understanding local ground conditions, working on the details for local construction phase environmental permits and understanding changes to the pipework required for uprating. Further work on these items would build confidence in the delivery plan ahead of the final option selection decision.

Our view on the long term consumer value of NGGT's preferred solution

4.14. Based on the information NGGT has provided, the current preferred solution delivers the best long-term value to consumers if the option can be delivered as proposed.

4.15. NGGT has chosen the lowest capex solution, which comes out cost-beneficial in each FES by the mid 2030s. This low cost solution is expected to have the least impact on consumers, delivering 17% additional capacity at a much lower capacity cost compared with the original pipeline.

Our view on NGGT's stakeholder engagement

4.16. To date, NGGT appears to have engaged with stakeholders appropriately on this project. It submitted a screening request to BEIS, to consider whether the project should be developed under the EIA process. It engaged with local authorities and has set out a clear process for further engagement with them.

4.17. NGGT has engaged with landowners directly to ensure the relevant land rights required are secured in a timely manner. An engagement programme with political stakeholders as well as members of the public was digitally led by NGGT, supporting inclusivity by ensuring that those who could not access online resources were still engaged. This included a website with information on the project, online meetings, webinars, feedback forms, social media campaigns, a freephone line, email and freepost address. Further engagement plans will become clear as the project progresses.

Our view on Western Gas Network Project within the context of net zero targets

4.18. As part of our assessment of the needs case for this project, we have considered how this project fits into the UK and devolved governments' commitments to reach net zero carbon emissions by 2050 (2045 in Scotland).

4.19. NGGT has based the CBA for this project on the 2020 FES, under which three of the four scenarios presented represent routes for the UK to achieve net zero.

4.20. Under all of these scenarios NGGT's CBA demonstrates that it is beneficial and that gas flows should be sufficient to avoid the risk of asset stranding, with investment paying off by 2035 across each FES. Beyond 2035 the forecast volume of LNG imports begins to diverge significant between the various FES. Given the uncertainty that exists about future LNG imports we do not think investment decisions today should be determined by these divergent forecasts.

4.21. Given natural gas will be an essential source of energy in the short term, and could potentially be used to reform into hydrogen in the long term, we see this project as playing a strategic role in diversifying gas flows into GB as the UK Continental Shelf supply declines.

4.22. In December 2020, we decided that an exemption from regulated Third Party Access (rTPA) should be granted in respect of the Incremental Capacity at South Hook LNG Terminal for a period of 25 years as we considered all the criteria for such an exemption were met. When considering whether or not to grant the South Hook LNG Terminal an exemption from the regulated TPA requirements we were required to consider whether or not the project would promote security of supply. Our finding was that it would.[18]

4.23. The purpose of the WGN project is to maximise the availability of Incremental Capacity at South Hook LNG Terminal and minimise potential constraint costs. The project is therefore required to maximise the potential security of supply benefits previously identified.

4.24. We will continue to test applications for additional investment on the NTS as the UK and devolved governments' net zero policy develops, and where it is clear a project does not fit in with the net zero ambition we will consider rejecting such applications on these grounds.

[18] South Hook LNG Terminal Company LTD's application for exemption from regulated third party access for additional capacity - Our initial views and questions for consultation | Ofgem

Our view on the project at this stage

4.25. Overall, we believe that NGGT has taken reasonable steps to establish that there is a needs case and to reach a preferred solution, supported by CBA analysis and extended stakeholder engagement. This solution seems to maximise consumer benefits in the future.

4.26. It is accepted that the option being proposed by NGGT presents some technical risk to the final project cost and schedule because any physical changes needed to increase the pressure rating of the pipeline and pipework are not yet known. This risk is set against the alternatives to pursing Option F6.6, all of which require much higher capex investments, involving laying as much as 10 times more pipeline with little or no additional upside until 2035.

4.27. Given the information presented to us we currently agree on NGGT's preferred option and support NGGT's approach to this project.

5. Next Steps

Section summary

This chapter sets out the next steps in our assessment of this project under the FIOC process.

5.1. We will consider stakeholder responses received in response to this consultation, and taking these into account, we will decide whether to provide approval of this FIOC needs case.

5.2. If we do approve this needs case, NGGT may submit a FIOC Project Direction application (currently anticipated in Q1 2023) in accordance with the Licence and the principles set out in section 4 of the RIIO-2 FIOC Guidance and Submissions Requirements Document to request that we set an output, delivery date and associated allowances.

5.3. Between the publication of this consultation and the submission of any FIOC Project Direction application, we would encourage NGGT to maintain ongoing engagement with us. We also expect NGGT to remain proactively engaged with stakeholders on the project's progress and developments.

5.4. As the options selection process is not complete for this project, we consider there to be some risk that the preferred option may change between any approval of the needs case and any FIOC Project Direction applications. Such a change could materially impact the economic benefit of this project and therefore our ultimate decision to set an output, delivery date and associated allowances. Any changes to the assessment of the options, and the preferred option, as well as changes on cost related information should be clearly communicated to us.

5.5. In particular, we recommend that NGGT submits its Final Options Selection Report to us once it is ready, ahead of any FIOC Project Direction application, in line with other major projects within the RIIO-T2 price control. Although this is not a requirement of the FIOC process, we would consider it useful, as it would potentially allow us to give an indicative view to NGGT on whether we are likely to agree with the final option and set out any issues that should be addressed as part of the FIOC Project Direction application.

5.6. Should NGGT choose to submit a Final Option Selection Report as part of the engagement process, we propose it should utilise the RIIO-GT2 Engineering Justification Paper (EJP) template.

Appendix 1 – 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

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.

3. With whom we will be sharing your personal data

We may need to share your data with specific stakeholders, such as the Department for Business, Energy and and Industrial Strategy. Please refer to the section entitled "Your response, data and confidentiality" at paragraphs 1.14 and 1.17 for further information.

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

Your personal data will be held for no longer than is necessary for the purposes for which it will be processed.

5. 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 3rd 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.

6. Your personal data will not be sent overseas.

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

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

9. More information For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".