

By email: Ofgem – [gasnetworks@ofgem.gov.uk](mailto:gasnetworks@ofgem.gov.uk)

11<sup>th</sup> November 2021

**RE: Western Gas Network Project – Needs Case Consultation**

Dear Ofgem,

We are grateful for the opportunity to respond to Ofgem's needs case assessment for the Western Gas Network (WGN) project.

South Hook Gas Company Ltd (SHG) manages and owns the primary capacity at the South Hook LNG terminal located at Milford Haven in South Wales. SHG has an active PARCA (Planning and Advanced Reservation of Capacity Agreement) application for incremental entry capacity at the Milford Haven System Entry Point. The WGN project is intended to release this incremental capacity.

In summary, we welcome Ofgem's minded-to decision to accept the needs case submission and agree that: i) there is a need for additional capability on the network, and ii) on the basis of National Grid Gas plc's (NGGT) assumptions on utilisation, NGGT's preferred option (Option F6.6) seems to be a cost-effective option to release the additional capability that NGGT proposes to deliver. However, we do have some concerns around the constraint management tools applicable when capability of the network does not meet the required level. There have been constraint management actions taken at Milford Haven at the current capability levels, even in winter months, and any increase in supplies without an increase in capability would likely lead to more constraints on the NTS. We note that the capability under the preferred option does not meet the additional capacity requested within the PARCA application (and decreases the capability versus the obligated baseline compared to the status quo). While we understand that NGGT have assessed the constraint risks as part of their cost-benefit analysis, we do not believe the current constraint management tools effectively manage the existing gap between capability and baseline and could lead to the risk of insufficient pipeline capability being borne by Milford Haven shippers.

Please find answers to the questions contained within the consultation document below.

**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?**

We are confident that NGGT have conducted a thorough selection process that covers a wide range of options that could facilitate their proposed increased capability. Using a CBA end date of 2035 is sensible given there is a greater level of certainty around gas demand in the UK and the NTS capability required over that timeline.

We recognise there is a degree of uncertainty around the demand levels from 2035 onwards and the option for incremental upgrades is a reasonable approach to address this uncertainty. As noted above, there is a potential deviation between capability and baseline within the status quo and preferred option. Therefore, we would encourage NGGT to be proactive in identifying any incremental upgrades ahead of them being required to ensure no significant constraints are experienced.

**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?**

We agree with Ofgem's minded-to position to approve the needs case submission. We believe there is a requirement for network investment to meet the additional capacity requested under SHG's PARCA application.

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

We agree that the project is compatible with the Government's net zero emissions targets. NGGT's CBA was based on the 2020 FES where 3 (of the 4) scenarios achieve net zero by 2050, with the CBA demonstrating that there is a benefit to the investment.

The additional capability from the Milford Haven System Entry Point also provides a potential positive security of energy supply benefit for the UK in a time of declining domestic gas supplies.

**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?**

We agree that NGGT's current preferred option represents an appropriate balance between delivering NGGT's proposed level of capability and limiting investment costs associated with such delivery. However, as noted above, NGGT's current preferred option does not deliver the full capability for the incremental capacity requested in SHG's PARCA application. Therefore, our view is that constraint management tools applicable to this option should ensure that any risk arising from a lack of capability sits with NGGT, as the NTS owner, and not with third party customers. We believe that the current constraint management tools could be enhanced to cover flexible assets such as LNG Terminals, Storage and Interconnectors and would welcome a review of the constraint management mechanisms by NGGT and Ofgem.

We hope this response is of assistance and should you wish to discuss further or have any further questions please contact me on [abates@southhookgas.com](mailto:abates@southhookgas.com) or +44 (0)20 7234 3505.

Yours sincerely,

**Adam Bates**

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