

Consultation

Hydrogen Village Trial Detailed Design Studies Consultation

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Response deadline: 11th April 2022

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We are consulting on our minded-to decision to fund detailed design studies on delivering a hydrogen heated village by 2025. We would like views from people with an interest in the gas distribution network and other public stakeholders.

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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Contents

1. Introduction	4
What are we consulting on?	4
How to respond	5
Your response, data and confidentiality	5
General feedback	7
How to track the progress of the consultation	7
2. Our assessment of the projects	8
Section summary	8
Questions	8
Overview	8
Why have Stage 2 applications been brought forward?	8
Process for determining which detailed design studies should be taken forward	9
Project summary and our minded-to position	10
Projects selected for funding	11
Projects not selected for funding	15
3. Proposed Directions and Deliverables	18
Section summary	18
Questions	18
Proposed directions and deliverables	18
Proposed directions	18
Proposed project deliverables	19
Appendices	25
Appendix 1 – Village trial stages	26
Appendix 2 – Proposed Direction to Cadent	27
Appendix 3 – Proposed direction to NGN	30
Appendix 4 – Proposed direction to NGGT	33
Appendix 5 – Privacy notice on consultations	36

1. Introduction

What are we consulting on?

1.1. We are consulting on our minded-to decision to fund detailed design studies that will research the detailed design and costs of delivering a hydrogen village trial for up to 2000 properties by 2025. Funding for the detailed design studies will be provided through the RIIO-GD2 Net Zero Pre-Construction and Small Projects re-opener ('the NZASP re-opener').¹

1.2. The government has set out its ambition to support the delivery of a 100% hydrogen village trial by 2025.² The trial will gather the evidence needed to help government decide whether to promote hydrogen, transported through the existing gas network, to decarbonise heat in buildings by 2026.

1.3. In July 2021 we published a joint letter, with the Department for Business, Energy and Industrial Strategy (BEIS), setting out how we'll support the delivery of a hydrogen village trial.³ We're at the early stages of the trial, focused on the detailed planning and engagement that is necessary to inform any future decision on where a final village trial location will be.

1.4. This consultation provides our views on which Gas Distribution Network Companies' (GDNs) detailed design studies should be funded. Our minded-to decision is to provide funding of £9.3m for two detailed design studies, and not take forward one study. The consultation is for 28 days and will close on the 11th of April 2022. We will then consider responses and decide which of the GDNs' detailed design studies to fund in spring this year.

1.5. We are also required to consult on our proposed directions to give effect to our minded-to decision, in accordance with Special Condition 3.9 and 6.1 of the GDNs' and NGGT's Gas Transporter Licences respectively. Chapter 3 outlines the proposed project plans and evidence that successful GDNs will be committed to delivering as part of receiving

¹ Additional information on the NZASP Re-opener can be found in our RIIO-2 Final Determinations document available at <https://www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator> and in the NZASP Governance document available at <https://www.ofgem.gov.uk/publications/net-zero-pre-construction-and-small-net-zero-projects-re-opener>.

² Available at <https://www.gov.uk/government/publications/uk-hydrogen-strategy>

³ Available at <https://www.ofgem.gov.uk/publications/hydrogen-consumer-trial-open-letter-gdns>

funding under the re-opener ('project deliverables'). The directions associated with these are contained in Appendices 2 to 4.

1.6. Throughout the trial we will continue to work closely with BEIS, and wider stakeholders, to develop appropriate funding arrangements for future stages, review the evidence that is being generated and help enable the trial to progress.

How to respond

1.7. We want to hear from anyone interested in this consultation. Please send your response by 11th April 2022 to the contact named on this document's front page.

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

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

Your response, data and confidentiality

1.10. 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.

1.11. 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.

1.12. 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 2.

1.13. 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

1.14. 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?

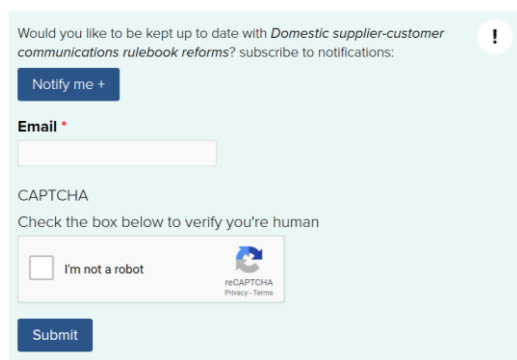
Please send any general feedback comments to stakeholders@ofgem.gov.uk

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).

Notifications




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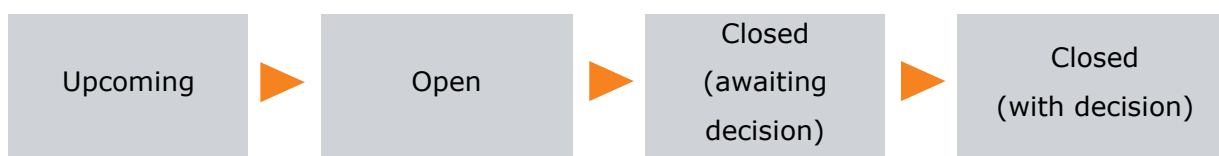
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Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:



2. Our assessment of the projects

Section summary

In this section, we set out our minded-to decision on which hydrogen village detailed design studies to fund. We are seeking views on the question below.

Questions

Question 1: Do you agree with our minded-to decision on the projects to fund?

Overview

Why have Stage 2 applications been brought forward?

2.1. The UK Government has stated that low carbon hydrogen has the potential to offer a strategic option for decarbonising heat in buildings to deliver net zero.⁴ However, the future of gas remains uncertain and further work is required to understand the feasibility, costs and convenience of transporting 100% hydrogen through the existing gas network to use for heating and cooking in occupied properties.

2.2. BEIS have an ongoing Hydrogen Grid Research and Development Programme to provide government with the necessary evidence to inform its policy decision on the role of hydrogen in decarbonising heat by 2026. As part of this programme, the government has set out its ambition to support the delivery of a 100% hydrogen neighbourhood trial by 2023, and village trial by 2025. The village trial will build on the learnings from the neighbourhood trial, which was funded by Ofgem and Scottish Government in 2020.⁵

⁴ BEIS – UK Hydrogen Strategy. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1011283/UK-Hydrogen-Strategy_web.pdf

⁵ The Neighbourhood Trial - H100 Fife was funded by Ofgem and Scottish Government in 2020. Available at <https://www.ofgem.gov.uk/publications/amended-project-direction-h100-fife-sgn-0>

2.3. In July 2021 we published a joint letter, with BEIS, setting out how we'll support the delivery of a hydrogen village trial.⁶ We launched a process to develop initial thinking in this area ('Stage 1'), alongside a process to fund detailed design studies to be completed by early 2023 ('Stage 2'). A village trial location will then be selected to progress to the build phase in 2023 ('Stage 3') to become operational by 2025 ('Stage 4'). The trial is expected to conclude around 2027 ('Stage 5').⁷ See Annex 1 for further information on stages.

2.4. We are now at the end of Stage 1 and have assessed three detailed design study applications from GDNs to progress to Stage 2. Detailed design studies will include the detailed stakeholder engagement, procurement and engineering research required in a potential trial location, to enable a go/no go decision on whether to proceed with the build and operation stages of a village trial by 2023. The GDN's Stage 2 detailed design studies have been designed to help fill this evidence gap.

2.5. Until a decision is made on funding Stage 2 detailed design studies, the specific locations of the research cannot be confirmed. We have therefore indicated the regions of potential research sites in this consultation. A key part of the detailed design studies are to determine a precise location to progress a trial to later stages. To do this, public and local stakeholder engagement research is essential. Detailed engagement by the GDNs with stakeholders will begin once we have made our decision on which studies to fund. This will include GDNs publicly sharing details of their research sites and their detailed design study plans, which we propose occurs within one week of our decision. We propose that this is requirement of all funded GDNs and that it should be a project deliverable in Chapter 3.

Process for determining which detailed design studies should be taken forward

2.6. The Stage 2 process was detailed in our joint letter with BEIS. This included:

- that Ofgem's NZASP re-opener will fund the majority of Stage 2 costs, but not significant work associated with hydrogen production;
- noting that both Ofgem and BEIS would both review detailed design study proposals, Ofgem would take the decision on which detailed design studies to fund under the NZASP re-opener;

⁶ Available at <https://www.ofgem.gov.uk/publications/hydrogen-consumer-trial-open-letter-gdns>

⁷ These are the indicative timelines for Stages 3-5.

- guidance on the information required in applications and the considerations relevant to assessing the overall value for money of proposals.

2.7. We received four NZASP applications from Cadent, Northern Gas Networks (NGN), Scotland Gas Networks (SGN) and Wales and West Utilities (WWU) in December 2021 in response to our joint letter. WWU withdrew their application later in the process, but will continue to support NGN’s proposal as project partners.

2.8. Applications were assessed against the requirements for Stage 2 funding applications contained in Annex A of our joint letter. To inform our consultation, BEIS provided us with feedback on the GDNs’ proposals from their own assessment using expert panels, attended by Ofgem as impartial advisors.

2.9. Separately, Ofgem has considered the value for money of proposals, including:

- the contribution to the existing evidence base that projects intend to capture through Stage 2 detailed design studies
- the level of overall funding requested by GDNs, from consumers, to carry out the studies and how this is balanced with any contributions from shareholders and/or third parties involved in the project.

2.10. Ofgem then made an independent decision on which projects should be proposed for funding under the NZASP and which projects should not.

Project summary and our minded-to decision

2.11. We are minded to fund Cadent’s and NGN’s detailed design studies and not fund SGN’s proposal. We have set out summaries of the projects and our reasons for this decision below.

Table 2: Project summary and our minded-to decision (18/19 prices)

GDN	Region of research	Total detailed design study cost	Proposed NZASP cost and our minded-to decision	Private contributions ⁸
Cadent	North West England	£8.29m	£3.36m (Fund)	£4.93m
NGN	North East England	£6.64m	£5.97m (Fund)	£688k
SGN – Option 1	East Scotland	£3.42m	£3.08m (Not fund) ⁹	£342k
SGN – Option 2	East Scotland	£6.85m	£6.17m (Not fund) ¹⁰	£685k

Projects selected for funding

Summary of projects selected for funding

2.12. We think there is value in funding both Cadent’s and NGN’s detailed design studies, in North West and North East England respectively. Both proposals demonstrate clear plans to research areas with a representative mixture of domestic housing stock and several unique commercial users. This will provide diverse evidence on the potential for buildings to convert to hydrogen.

2.13. Cadent proposes to research a potential village trial location in North West England, exploring the supply of blue hydrogen¹¹ to over 1900 properties. Until blue hydrogen is available (potentially late 2025), the project will consider the use of grey hydrogen¹². Various partners are signed up to assist with the delivery of the study that appear to have an

⁸ These are private (licensee or third party) contributions to the projects provided in the form of cash or benefits-in-kind to Stage 2. We set an expectation of a minimum 10% contribution to Stage 2 detailed design studies as part of our NZASP engagement phase.

⁹ Inferred from application of proposed contribution to total project cost.

¹⁰ Inferred from application of proposed contribution to total project cost.

¹¹ Blue hydrogen is commonly used to refer to the process of producing low carbon hydrogen by splitting natural gas into hydrogen and CO₂, then capturing and storing the CO₂ created.

¹² Grey hydrogen is commonly used to refer to hydrogen produced using fossil fuels such as natural gas.

appropriate focus, including energy suppliers, a hydrogen producer and a local authority. The project includes a large private contribution to the detailed design study (i.e. not funded by consumers) of around 60% of the total costs.

2.14. NGN proposes to research a potential village trial location in the North East of England, exploring a range of green¹³ and negative carbon hydrogen supply methods, with grey hydrogen as a backup option, to over 1800 meter points. Various partners are signed up to assist with the delivery of Stage 2 work that appear to have an appropriate focus, including WWU, a hydrogen producer and local authorities. The project proposes to include a private contribution of 10% of the total costs as well as additional benefits-in-kind worth around £24k.

Summary of BEIS feedback

2.15. BEIS is broadly content that the level of information provided by Cadent and NGN in relation to our joint letter requirements, demonstrates that both detailed design studies will provide sufficient coverage of the evidence base on hydrogen for heat expected to be delivered by the village trial, as set out in the Trials Evidence Framework. Both proposals set out a clear project scope and plan, with the potential to provide a wide range of evidence across a range of domestic and commercial property types and users. Both proposals included strong strategies for consumer engagement, with good supporting evidence of positive local stakeholder engagement to date. The detail contained in both bids, including for their approaches to hydrogen supply, workforce capabilities and supply chain partnerships, provides assurance of the deliverability of the projects.

2.16. BEIS also highlighted areas in the plans that could be strengthened during the detailed design study (Stage 2). These include:

Both proposals

- More detailed analysis of the supply chain, particularly in relation to appliances, as well as further consideration to the electricity grid capacity and potential risks.

¹³ Green hydrogen is commonly used to refer to hydrogen produced using renewable energy or low carbon power.

Cadent

- Further consideration of the risks and mitigations associated with:
 - the primary and secondary sources of hydrogen supply, including more detailed contingency plans in the event of a delay to blue hydrogen becoming available by 2025;
 - delivering a new pipeline from the production source to the village trial.

NGN

- The need for a contingency and mitigation plan should the preferred sources of hydrogen not secure funding / be delayed.

Our assessment

i. Performance against joint letter requirements

2.17. Having considered BEIS feedback, we also consider that both Cadent and NGN performed well against the joint letter requirements. The level of detail, and supporting evidence, in their detailed design study plans provides confidence in delivery. The plans also demonstrate a diversity of information that will be captured as they progress. There are differences between the proposals that will provide unique information and richness to the evidence base on hydrogen for heating. Their stakeholder and customer engagement plans appear well-developed and will test diverse engagement methodologies with stakeholders in their respective regions, with proactive consideration given to consumers in vulnerable situations.

2.18. We agree with the areas that BEIS suggested could be strengthened. We will engage with GDNs and BEIS over the consultation period to consider whether additional project deliverables in relation to these areas are needed, prior to a decision on funding being made.

2.19. We have also highlighted other areas for GDNs to provide further information on in any response to this consultation below.

Cadent

- Confirmation of whether the detailed design study will explore the potential of green hydrogen production methods to use as a backup supply option.

NGN

- Demonstrating more clearly, the evidence to be captured in Stage 2 against BEIS' Trials Evidence Framework.

ii. Value for money

2.20. We are satisfied that funding both Cadent's and NGN's detailed design studies represents value for money for consumers. We think both studies will generate valuable evidence researching a wide range of domestic and non-domestic building samples in their respective regions. There is unique evidence to be captured by each proposal, including differences in:

- connection and operation of the network from using different hydrogen production sources
- public and local stakeholders engagement approaches
- the housing stock and wider commercial users
- demographics of the area
- developing propositions for customers should a live trial go forward in the region.

2.21. We commend the level of private contribution Cadent have proposed for their project, recognising the benefits the evidence to be captured has the potential to generate for GDNs, their shareholders, as well as to GB customers as a whole. We are also satisfied with the level of private sector contribution NGN have proposed for their study, which includes benefits-in-kind from a project partner.

2.22. We also note that NGN is proposing to explore the potential of five different hydrogen production methods as part of its study. Having the potential production methods 'open' at this stage is useful as the competition between producers is expected to help drive costs lower in later stages of the trial, and manages the risk if one production source is determined not to be feasible.

Our minded-to decision

2.23. We propose to fund Cadent's (£3.36m) and NGN's (£5.97m) proposals for a total of £9.3m under the NZASP. We think that both project plans are broadly satisfactory, however, as part of any response to this consultation, we request both companies provide further clarity on the areas that could be strengthened highlighted by BEIS and Ofgem.

Proposed deliverables for the project

2.24. Chapter 3 sets out the proposed project deliverables that we expect to be completed by Cadent and NGN if their detailed design studies are funded. These were proposed by Cadent and NGN respectively as part of their Stage 2 applications. We are broadly content with these but proposed some additional deliverables to both projects.

Projects not selected for funding

Summary of project not selected for funding

2.25. SGN proposes two options for developing a village trial. Both options look to expand their ongoing hydrogen neighbourhood trial¹⁴ in the region which, in 2023, is due to supply around 300 consumers through pipes laid parallel to the existing gas network. 'Option 1' proposes to expand this trial to include an additional 600 properties, whilst 'Option 2' proposes to explore the expansion to an additional 1700 properties.

2.26. Though engagement has started, no project partners have been secured at this stage. SGN proposes to include a private contribution of 10% of the total costs for either option.

Summary of BEIS feedback

2.27. Overall, BEIS were not satisfied that the level of information provided by SGN demonstrates that the evidence to be generated by either option provides sufficient coverage of the Evidence Trials Framework. In particular, BEIS noted insufficient detail in key areas of the submission, such as hydrogen production and resilience, planning and the strategy for stakeholder and consumer engagement. This raises concerns regarding the deliverability of the project, particularly as SGN is responsible for delivering the neighbourhood trial. On this basis BEIS did not recommend taking forward the SGN proposals.

Our assessment

- i. Performance against joint letter requirements*
-

¹⁴ H100 Fife – SGN Project website. Available at <https://www.sgn.co.uk/H100Fife>

2.28. Having considered BEIS feedback, we also think that SGN did not adequately cover our joint letter requirements to provide confidence in the delivery of either option proposed. Whilst responses were provided to most requirements, key areas of the submission lacked detail at this stage in the process, relative to other GDN proposals. This raises concerns about the ability of the proposal to deliver the evidence required within the tight timescales needed and before a decision is made on whether to progress a live village trial. Some of the key requirements lacking sufficient detail include:

- **Outline evidence / benefits plan:** including how the scope and design of the project will produce comprehensive evidence against the Trials Evidence Framework. This is particularly in relation to Option 1, which we think is too low a sample size.
- **Plan, timetable and scope of work for subsequent stages:** for all stages of the trial the level of detail was insufficient relative to other proposals and relies heavily on the plans becoming more detailed during Stage 2. We think this is a risk.
- **Identification of reliable and resilient hydrogen supply:** with both options carrying risks that appear complex and potentially costly to resolve (see value for money section below).
- **Public engagement and consumer strategy:** where substantial further work is required to develop a bespoke approach for a hydrogen village.
- **A project risk register with associated mitigations:** which was substantially incomplete to provide confidence in mitigations to project risks.

ii. Value for money

2.29. Based on the information provided, we are not convinced that either option represents strong value for money for consumers. At this stage of the process, the plans do not provide sufficient detail to assure us that the evidence to be generated is comprehensive enough to meet BEIS evidence requirements and, as such, that the associated costs represent value for money for consumers. We have detailed some of these concerns below.

2.30. Option 1 proposes to convert around 600 meter points to hydrogen and use existing infrastructure already supplying the hydrogen neighbourhood trial in the area. In order to generate sufficient evidence of a village conversion trial, we think between 1,000 to 2,000

meter points may be needed.¹⁵ We think the sample size is therefore too low. In addition, using existing hydrogen production facilities at the trial site would mean continued operation at maximum capacity to supply the additional 600 customers. We think this poses a significant risk to the security of supply.

2.31. Option 2 proposes to convert around 1,700 meter points to hydrogen and a wider range of consumer and building types. However, evidence provided demonstrated complexities in establishing new production facilities to meet the higher demand, that added significant costs to Stage 2 of the project compared to other proposals.

2.32. For both options, we think expanding the existing 300 home trial with the connection to the village trial risks the quality of the former, which is delivering distinct consumer research. The proposed stakeholder engagement strategy does not demonstrate a clear bespoke plan for the village trial. It's also unclear how the interaction between the two trial areas will be managed, which risks potential confusion among consumers that may be engaged in different trials. We also note that project partners have not been secured for Stage 2, which could impact the delivery of this work.

Our minded-to decision

2.33. We propose not to fund either of SGN's proposals requested under NZASP.

2.34. SGN is already delivering important work in relation to BEIS' Hydrogen Grid Research and Development Programme, in particular the hydrogen neighbourhood trial. We think this should remain their immediate focus for contributing towards developing the evidence base on hydrogen for heat. The hydrogen neighbourhood trial will provide vital learning and best practice to feed into the village trial. SGN also have a key role to play in collaborating with other GDNs to support the village trial.

¹⁵ See our joint letter with BEIS, paragraph 6.

3. Proposed Directions and Deliverables

Section summary

This chapter sets out the key activities and evidence that successful GDNs will be committed to delivering ('project deliverables') as part of receiving funding for the detailed design studies. It also includes the proposed directions for the projects, which will give effect to the future funding decision should our minded-to decision remain unchanged.

Questions

Question 2. Do you have any views on the proposed project deliverables for Cadent and NGN, and whether further deliverables are required?

Question 3. Do you have any views on the proposed directions for the projects contained in Appendix 2 to 4?

Proposed directions and deliverables

Proposed directions

3.1. Under the NZASP re-opener, directions are issued by Ofgem to GDNs to set out any adjustments to the value of NZPt 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 Special Condition 6.1 of the National Grid Gas (NGGT) Gas Transporter Licence.

3.2. We are minded to fund 100% of the project costs through a charge on all GB gas consumers via NGGT (as opposed to only the network licensee region's customers taking the initial work forward). This is because the learning from these initial detailed design studies will benefit all GB gas customers in understanding how a hydrogen village might be

operationalised, as well as the potential role hydrogen could play in decarbonising the gas network and meeting Net Zero.¹⁶

Proposed project deliverables

3.3. 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.¹⁷

3.4. In accordance with Special Condition 3.9 and 6.1 of the GDNs' and NGGT's Gas Transporter Licences respectively, we are consulting on the proposed directions for Cadent, NGN and NGGT to give effect to our minded-to decision. The proposed directions for Cadent, NGN and NGGT are set out in Appendix 2, 3 and 4 respectively.

3.5. As part of this, and in accordance with our NZASP re-opener governance document¹⁸, we are consulting on the project deliverables proposed by Cadent and NGN as part of their detailed design study submissions. 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, GDNs should indicate, in writing, that they will comply with the project deliverables following any amendments made by Ofgem.

Common project deliverables

3.6. We propose that all Stage 2 detailed design studies that we fund under the NZASP re-opener should have the following common project deliverables. We have set out the reasons for including them in the projects below, as well as how we envisage them being integrated within the project direction.

¹⁶ See Chapter 1 of the UK Hydrogen Strategy. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1011283/UK-Hydrogen-Strategy_web.pdf

¹⁷ Subject to a well-reasoned justification for under or non-delivery from the licensee.

¹⁸ Paragraph 2.17

- GDNs to publicly share details of their research sites and detailed design study plans on their websites, within a week of our decision on funding being issued. The reasons for this are set out in paragraph 2.5 of this consultation
- We propose to require that GDNs partner with, or employ, an independent third party to monitor and evaluate the delivery of consumer research and engagement plans over Stage 2. This is to help ensure the engagement methodologies and generated evidence are robust. We have proposed two project deliverables in the GDNs' project plans below and welcome views when these could be delivered. This includes:
 - 1) GDNs submitting a plan for an independent third party to support the project and monitor consumer research and engagement over Stage 2;
 - 2) GDNs submitting a report by the independent third party that evaluates the success of consumer research and engagement methodologies, including the robustness of evidence generated as a result of these.

Company specific project deliverables

3.7. We propose that Cadent should have a project deliverable to submit a closedown report once the project is complete. It's vital that the evidence collected over Stage 2 is clearly disseminated. In any response to this consultation, Cadent should propose an indicative deadline for this deliverable.

Next steps for project deliverables

3.8. Over the consultation period, we will engage with BEIS and the GDNs to consider whether further project deliverables are needed. This may include additional evidence to support areas to be strengthened, as discussed in Chapter 2 and BEIS' Trial Evidence Framework more generally, or adjustments to proposed completion dates to better align timings with future phases of the trial funding process envisaged in 2023. Prior to our decision, we will confirm any changes to companies' project deliverables and agree the wording of these with GDNs.

Cadent – Village Trial detailed design study in North West England

3.9. The table below contains the project deliverables proposed by Cadent as part of their Stage 2 applications. Our proposed additional project deliverables are underlined below.

Table 1: Cadent’s proposed project deliverables

Reference	Project Deliverable	Indicative Deadline	Evidence
1	<u>Project websites</u>	<u>[1 week from date of decision]</u>	1. <u>Publically share details of their research sites and detailed design study plans on project websites and any other engagement channels</u>
2	Detailed designs and specifications for infrastructure requirements	31/03/2023	<ol style="list-style-type: none"> 1. Network solutions defined 2. Engineering packages completed for hydrogen supply resilience and network infrastructure requirements 3. Completed tender documentation
3	Safety case and safety documentation development	24/02/23	<ol style="list-style-type: none"> 1. Full Project Quantitative Risk Assessment (QRA) Report 2. Safety case framework developed 3. Full scope of site-specific safety documentation developed
4	Stakeholder engagement and communications	<ol style="list-style-type: none"> 1. 25/10/22 2. 14/03/22 3. 14/03/22 4. 05/04/22 5. <u>TBC</u> 	<ol style="list-style-type: none"> 1. Refined and researched consumer propositions leading to high uptake 2. Stakeholder engagement report produced 3. Stakeholder database 4. Implementation of successful marketing and communications plans 5. <u>Submission of a plan for an independent third party to support the project and monitor consumer research and engagement over Stage 2.</u>
5	Regulatory and commercial arrangements in place to be implemented	29/03/23	<ol style="list-style-type: none"> 1. Documented proposal on the UNC modifications required to support trial 2. Documented proposed on technical billing modifications undertaken 3. Development of Commercial Assurance Framework 4. Development of a Commercial Change Framework for hydrogen
6	Consumer agreements in place, and end use appliance procurement strategy developed	<ol style="list-style-type: none"> 19/09/22 25/11/22 05/01/23 05/01/23 	<ol style="list-style-type: none"> 1. Sample surveys of domestic properties and full survey non-domestic properties completed 2. Consumer solutions produced and corresponding agreements with consumers in place for implementation 3. Bill of Materials for hydrogen and electrification approaches 4. Appliance procurement and contracting strategies

7	Delivery model and commercial strategy established	17/02/23 31/03/23	<ol style="list-style-type: none"> 1. Delivery model 2. Signed contracts with key suppliers and partnerships with project partners agreed
8	Spending profile and implementation timetable for live trial	13/01/23 17/02/23 31/03/23	<ol style="list-style-type: none"> 1. Robust spending profile over full lifetime of project 2. Detailed implementation timetable for delivery of live trial 3. Land procurement
9	Procedures, standards, and workforce training	25/03/22 24/02/23	<ol style="list-style-type: none"> 1. Workforce training programmes 2. Local operating procedures
10	Project management and technical oversight	31/03/23	<ol style="list-style-type: none"> 1. Project management 2. Work-pack co-ordination and technical support 3. Maintenance of project risk register 4. Final project report preparation
11	Full evidence and benefits plan	08/12/22	<ol style="list-style-type: none"> 1. Full evidence and benefits plan
12	<u>Stage 2 Complete</u>	<u>TBC</u>	<ol style="list-style-type: none"> 1. <u>Stage 2 close-down report</u> 2. <u>Submission of a report by the independent third party that evaluates the success of consumer research and engagement methodologies, including the robustness of evidence generated as a result of these.</u>

NGN – Stage 2 Village Trial detailed design study in North East England.

3.10. The table below contains the project deliverables proposed by NGN as part of their Stage 2 applications. Our proposed additional project deliverables are underlined below.

Table 2: NGN's proposed project deliverables

Reference	Project Deliverable	Indicative Deadline	Evidence
<u>1</u>	<u>Project websites</u>	<u>[1 week from date of decision]</u>	<u>Publicly share details of their research sites and detailed design study plans on project websites and any other engagement channels.</u>
2	Comms Plan	1) 1/04/22 2) <u>TBC</u>	<ol style="list-style-type: none"> 1. Completion and issue of the Communications Plan 2. <u>Submission of a plan for an independent third party to support the project and monitor consumer research and engagement over Stage 2</u>

3	Preliminary Site Investigations	30/6/22	Report on the initial site surveys
4	Network Modelling Complete	30/9/22	Sectorisation, pressure/velocity modelling completed
5	Property Surveys Complete	31/12/22	Survey database updated with majority of required data
6	Outline Case for Safety	31/1/23	Draft Case for Safety
7	Training Plan	31/3/23	The outline training plan complete to allow the detail to be developed
8	Network detailed design complete	31/12/22	Initial pipeline design complete, including reinforcement schemes
9	QRA and modelling completion	31/12/22	QRA report issued incorporating Commercial consumers
10	Stage 2 Report & Results	31/3/23	All technical reports complete and issued
11	Stage 2 Complete	1. 31/05/23 2. TBC	1. Stage 2 close-down report 2. <u>Submission of a report by the independent third party that evaluates the success of consumer research and engagement methodologies, including the robustness of evidence generated as a result of these.</u>

SGN – Stage 2 Village Trial detailed design study in East Scotland.

3.11. The table below contains the project deliverables proposed by SGN as part of their Stage 2 applications. We have included this for the purposes of the consultation, but have not proposed additional project deliverables in recognition of our minded-to decision to not fund the proposal.

Table 3: SGN's proposed project deliverables¹⁹

Reference	Project Deliverable	Deadline	Evidence
1	Consumer and Network Options Identification	01 April 22	Consumer and Network Options Identification Downstream statistical representativeness
2	Concept Selection	29 April 22	Preferred Concept Design Report
2	Draft Procurement Strategy	27 June 22	Draft Procurement Strategy
3	Final Procurement Strategy	06 Jan 23	Final Procurement Strategy
4	Design Freeze	06 Jan 23	Design Report
6	Pre Construction Activities	26 May 23	Planning application submitted to relevant authorities Safety case produced, regulatory model agreed, insurance agreed in principle, network design complete
7	Third-party agreements in principle	23 Jun 23	Power Grid Gas network Water Land Appliances
8	Procurement in principle complete	07 Jul 23	Technical/functional specification and tender pack
9	Village Trial Stage 3 Application	29 Sep 23	Application to BEIS/Ofgem to continue into Stages 3 and beyond

¹⁹ Note that SGN's proposed project deliverables for Stage 2 in Table 3 are aligned to the 1700 converted properties option. It is anticipated that the project deliverables for the 600 converted properties option will be the same, but with earlier deadline dates for several of the deliverables.

Appendices

Index

Appendix	Name of appendix	Page no.
1	Village trial stages	26
2	Cadent proposed direction	27
3	NGN proposed direction	30
5	NGGT proposed direction	33
6	Privacy notice on consultations	36

Appendix 1 – Village trial stages

Stages	Description
1. Outline Design	Initial outline designs, desktop studies and planning.
2. Detailed Design	Development of detailed plans to enable a go/no-go decision on whether to proceed with the procurement and engineering work required for a particular trial location and design, and investment decisions associated with this.
3. Prepare and Build	By the end of stage 3, project developers will need to demonstrate that they are ready to begin installation in consumer properties and the conversion to hydrogen.
4. Go-live and Operate	Activities will include installation in consumer properties, conversion, system implementation (e.g. settlement/billing), operation of the trial, evidence collection and benefits realisation.
5. Trial exit	Activities will include either planning for the continuation of the project or decommissioning all necessary system engineering work and property installations, and data gathering and evidence analysis.

Appendix 2 – Proposed Direction to Cadent

This appendix sets out our proposed direction for Cadent.

To:

Cadent Gas Ltd ('Cadent' or 'the Licensee')

Direction under Part C of Special Condition 3.9. (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPt))

General

1. Cadent is the holder of a licence granted or treated as granted under section 7 of the Gas Act ('the Act').
2. On 14 December 2021, Cadent submitted a Re-opener application in respect of a detailed design study to support the development and delivery of a hydrogen village trial ('the Project'). On [15 March 2022] we consulted on our assessment and minded-to decision for this Project²⁰. Having considered the consultation responses, on [XX XXXX] 2022, we published our decision and approved £[3.36]m (18/19 values) in funding for the Project.
3. This direction is issued pursuant to Part C of Special Condition 3.9. (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPt)). It sets out the approved funding, the adjustment to the value of NGGT's NZPS_t term and the Regulatory Years to which that adjustment relates, as well as the conditions to be met by Cadent in relation to the Project. It is issued alongside a direction to NGGT, setting out the necessary amendment to the value of the NZPS_t term in Appendix 2 of Special Condition 6.1 Part F of NGGT's licence.
4. In accordance with Part C of 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 [11th April 2022].
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 any changes we have made to the proposed direction as a result of the responses.]

²⁰ [link to consultation]

Approved funding for the Project

7. The approved amount is £[8.29]m, in 18/19 values. Further details on the funding value are set out in our decision published on [XX XXXX] 2022²¹.
8. Of the approved amount, Cadent will contribute £[4.93]m in cash and benefits in kind. The remaining £[3.36]m, will be recovered by NGGT, through NTS Transportation Owner Charges²², and transferred to Cadent. Annex 1 sets out the amounts to be recovered in each Regulatory Year and attributed to the Licensee.
9. The timing of the revenue transfer between NGGT and the Cadent must occur in accordance with Special Condition 6.1.13 of NGGT's Licence. Cadent is responsible for notifying NGGT of the bank account details to which transfers must be made, using the template provided in Annex 3 to this direction.

Project Funding Conditions

10. 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 [Section 7] 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.

Notifications and close-down report

11. Cadent 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.
12. At the end of the Project, Cadent must submit a close-down report to the Authority setting out how it has completed the deliverables set out in Annex 2 below.
13. 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 customers, pursuant to Special Condition 3.19.12 of Cadent's licence.

NOW THEREFORE,

14. The Authority, pursuant to the provisions of Special Condition 3.9 and the NZASP Re-opener Governance Document, issues this Direction to Cadent.
15. This Direction constitutes notice of reasons for the Authority's decision pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.

²¹ [link to decision document]

²² As defined in Special Condition 1.1.15 of National Grid Gas' Gas Transporter Licence

[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 NGGT’s licence. The figures below are expressed in 18/19 values.

Special Condition 6.1 Part F Appendix 2

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

Distribution Network/Regulatory Year	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Cadent	0.00	3.36	0.00	0.00	0.00	0.00

Annex 2: Project Deliverables

This annex sets out our requirements that Cadent will be held to account for delivering through this project. Should Cadent 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 1 of this document]

ANNEX 3: TEMPLATE OF BANK ACCOUNT DETAILS TO BE PROVIDED TO NGGT

REDACTED

Appendix 3 – Proposed direction to NGN

This appendix sets out our proposed direction for NGN.

To:

Northern Gas Networks plc ('NGN' or 'the Licensee')

Direction under Part C of Special Condition 3.9. (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPt))

General

1. NGN is the holder of a licence granted or treated as granted under section 7 of the Gas Act ('the Act').
2. On 14 December 2021, NGN submitted a Re-opener application in respect of a detailed design study to support the development and delivery of a hydrogen village trial ('the Project'). On [15 March 2022] we consulted on our assessment and minded-to decision for this Project²³. Having considered the consultation responses, on [XX XXXX] 2022, we published our decision and approved £[5.97]m (18/19 values) in funding for the Project.
3. This direction is issued pursuant to Part C of Special Condition 3.9. (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPt)). It sets out the approved funding, the adjustment to the value of NGGT's NZPSt term and the Regulatory Years to which that adjustment relates, as well as the conditions to be met by NGN in relation to the Project. It is issued alongside a direction to NGGT, setting out the necessary amendment to the value of the NZPSt term in Appendix 2 of Special Condition 6.1 Part F of NGGT's licence.
4. In accordance with Part C of 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 [11 April 2022].
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 any changes we have made to the proposed direction as a result of the responses.]

²³ [link to consultation]

Approved funding for the Project

7. The approved amount is £[6.64]m, in 18/19 values. Further details on the funding value are set out in our decision published on [XX XXXX] 2022²⁴.
8. Of the approved amount, NGN will contribute £[0.68]m in cash and benefits in kind. The remaining £[5.97]m, will be recovered by NGGT, through NTS Transportation Owner Charges²⁵, and transferred to NGN. Annex 1 sets out the amounts to be recovered in each Regulatory Year and attributed to the Licensee.
9. The timing of the revenue transfer between NGGT and the NGN must occur in accordance with Special Condition 6.1.13 of NGGT's Licence. NGN is responsible for notifying NGGT of the bank account details to which transfers must be made, using the template provided in Annex 3 to this direction.

Project Funding Conditions

10. 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 [Section 7] 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.

Notifications and close-down report

11. NGN 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.
12. At the end of the Project, NGN must submit a close-down report to the Authority setting out how it has completed the deliverables set out in Annex 2 below.
13. 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 customers, pursuant to Special Condition 3.19.12 of NGN's licence.

NOW THEREFORE,

14. The Authority, pursuant to the provisions of Special Condition 3.9 and the NZASP Re-opener Governance Document, issues this Direction to NGN.
15. This Direction constitutes notice of reasons for the Authority's decision pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.

²⁴ [link to decision document]

²⁵ As defined in Special Condition 1.1.15 of National Grid Gas' Gas Transporter Licence

[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 NGGT’s licence. The figures below are expressed in 18/19 values.

Special Condition 6.1 Part F Appendix 2

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

Distribution Network/Regulatory Year	2021/22	2022/23	2023/24	2024/25	2025/26	Total
NGN	0.00	5.97	0.00	0.00	0.00	0.00

Annex 2: Project Deliverables

This annex sets out our requirements that NGN will be held to account for delivering through this project. Should NGN 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]

ANNEX 3: TEMPLATE OF BANK ACCOUNT DETAILS TO BE PROVIDED TO NGGT

REDACTED

Appendix 4 – Proposed direction to NGGT

This appendix sets out our proposed direction for NGGT.

To:

National Grid Gas Transmission plc ('NGGT' or 'the Licensee')

Direction under Part F (Adjustment for the Distribution Networks' Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPSt) of Special Condition 6.1. (Transportation owner pass-through items (PTt))

General

1. NGGT is the holder of a licence granted or treated as granted under section 7 of the Gas Act ('the Act').
2. In December 2021, [Cadent, NGN and SGN] submitted NZASP Re-opener applications for detailed design studies to support the development and delivery of a hydrogen village trial ('the Projects'). On [15 March 2022] we consulted on our assessment and minded-to decision for these Projects. Having considered the consultation responses, on [XX XXXX] 2022, we published our decision, where we approved £[14.93]m in total funding for [2] of the Projects. Further details on the funding value are set out in our decision published on [XX XXX] 2022²⁶.
3. This direction is issued pursuant to Part F (Adjustment for the Distribution Networks' Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPSt). It sets out the adjustments to the value of NZPSt. In particular, it provides for the payments to be made by the Licensee to [Cadent and NGN] for the detailed design studies mentioned in paragraph 2 above, as a result of the applications made under Special Condition 3.9 of the licence of [Cadent and NGN]. It is issued alongside directions to [Caden and NGN] setting out the conditions to be met by them in relation to the Projects.
4. 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 [11 April 2022].
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 any changes we have made to the proposed direction as a result of the responses.]

²⁶ [link to decision document]

Payments to [Cadent and NGN] under the Net Zero Pre-construction Work and Small Net Zero Projects

7. Of the approved total amount of £[14.94]m for the detailed design studies, [Cadent and NGN] will contribute £[5.61]m in cash and benefits in kind. The remaining £[9.33] in 18-19 values, will be recovered by NGGT, through NTS Transportation Owner Charges²⁷, and transferred to [Cadent and NGN]. Annex 1 sets out the amounts to be recovered in each Regulatory Year.
8. The timing of the revenue transfer between NGGT and the [Cadent and NGN] must occur in accordance with Special Condition 6.1.13 of NGGT's Licence. [Cadent and NGN] are responsible for notifying NGGT of the bank account details to which transfers must be made.

NOW THEREFORE,

9. The Authority, pursuant to the provisions of Special Condition 6.1, issues this Direction to NGGT. Furthermore, the Authority directs that Appendix 2 of Special Condition 6.1 Part F is amended as set out in Annex 1.
10. 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]

²⁷ As defined in Special Condition 1.1.15 of National Grid Gas' Gas Transporter Licence

Annex 1: Funding value

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

Special Condition 6.1 Part F Appendix 2

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

Distribution Network/Regulatory Year	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Cadent	0.00	3.36	0.00	0.00	0.00	0.00
NGN	0.00	5.97	0.00	0.00	0.00	0.00

Appendix 5 – 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

(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)

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 ***(be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. 'six months after the project is closed')***

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 (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”).

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. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

9. More information For more information on how Ofgem processes your data, click on the link to our “[Ofgem privacy promise](#)”.