

Forward Work Programme 2022-2023
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Dear Ofgem,

Forward Work Programme Consultation 2022-23

Introduction

National Grid Gas sits at the heart of Britain's energy system, connecting millions of people and businesses to the energy they use every day. We understand our responsibilities to the environment and future generations, so we are working to develop solutions that enable an effective and secure transition to a clean energy system, in which nobody is left behind. The transition of our energy system towards net zero will be a critical part of this vast transformation. While progress has already been made, tangible steps need to be taken to stimulate and support the significant levels of infrastructure investment required to achieve economy-wide emissions reduction at the lowest cost to consumers, whilst retaining security of supply and climate change resilience both in transition and at net zero.

We recognise that the Forward Work Programme sets out Ofgem's views on the rapidly changing energy market and the activities proposed to address the challenges in 2022/23. National Grid Gas welcomes the annual opportunity to comment on the forward work programme and how we can support these activities as we plan for an affordable, cleaner and more resilient energy system.

We support Ofgem's enduring priorities focusing on vulnerable consumers and net zero priorities and understand the importance to continue to work with Ofgem during this challenging time in the energy market, driven by the record increase in global gas prices which has put customers and energy companies under huge strain. Now more than ever, it is paramount that we work together across industry, Government and independent regulator to ensure our energy system is optimally placed to respond to challenges of maintaining critical energy security as we transition to net zero. We support Ofgem's aim for the transition to net zero and collectively we need to ensure the necessary enablers are in place to facilitate a more coordinated approach to the transition of UK's network infrastructure for net zero. We will play an active role by ensuring efficient investment in the networks, whilst keeping costs to consumers as low as possible.

We have set out our views specifically in response to points 4, 5, 7 and 8 of the Ofgem Forward Work Programme below:

Point 4: low carbon infrastructure

We agree that Ofgem's Low Carbon Infrastructure change programme should address the three key strategic themes of Network Planning, Enabling new technologies, Network investment and disinvestment. Specifically relating to 'Enabling new technologies' we are keen to see Ofgem engaging and working with the industry to develop a suitable regulatory regime for hydrogen. This must include suitable funding mechanisms prior to regulation being in place. A stable, predictable regulatory environment for the emerging hydrogen market will reduce barriers to entry and make the market more attractive, this will bring investment into the market in terms of capital, innovation and technology which will benefit the UK and energy consumers. We strongly believe that CCUS and hydrogen networks need to be considered in parallel.

The current work underway today needs to continue at pace if hydrogen networks are to play a critical role in enabling the emerging hydrogen market. This includes a clear pathway to secure the

relevant approval for funds to continue this work utilising the natural gas framework until such time as any other arrangements might be established. We will continue to work with Ofgem, BEIS and our stakeholders to understand what is needed from the hydrogen regulatory framework and to develop credible options for how it might be developed and enacted. We look forward to continuing this constructive engagement over the coming year.

More than ever, we need to be looking at whole energy system solutions and considering the implications across energy sectors. To maintain resilient networks, we will need to improve how we collaborate across the whole energy system and better understand the interdependencies at work. In the transition, the interaction between the gas and electricity systems will likely grow and place greater load on the available, but aging, assets that will be required to respond more quickly to peak load and drops in renewable output. There will also be more volatility in the requirement for natural gas as the level of renewable generation increases the need for gas fired generation to support intermittency as will the resulting response requirement from gas infrastructure assets. Hydrogen also presents a future option for meeting the UK's inter-seasonal energy storage needs at scale, with a hydrogen network being a key enabler. We look forward to working with Ofgem and our stakeholders to ensure the whole energy system implications are considered appropriately.

There is also a need to ensure that the existing levels of security of supply are maintained as Europe regulates its low carbon gas market and introduces hydrogen blends, while we design regulation for our own low carbon gas market. As we decarbonise our energy system, electricity generation will continue to rely on gas as a key component of the UK's generation mix. It is therefore paramount that the impacts of climatic change on the Gas Transmission System are equally considered in our journey to net zero.

We are keen to work with Ofgem to ensure the RIIO framework delivers for current and future consumers. Given the current energy landscape and challenges, the RIIO framework needs to ensure networks provide access to reliable, low-cost energy for all and support the affordable transition to net zero. The gas network has a key role in this. The lens of economic assessment through which proposals are made needs to be broadened to account for reliability, net zero, energy security, minimal disruption as well as affordability. We look forward to working up proposals for this.

Climate adaptation and energy network investment is critical to ensure the resilience and reliability of all strategic infrastructure across the UK. By way of example, increases in pluvial flooding, storm events, temperature and water scarcity will all impact the operation of existing energy networks and associated assets. Without sufficient investment to maintain flexibility, availability and resilience, the ageing energy network infrastructure may be more likely to fail under the stresses of weather and supply/demand pattern related risks. It would be good to see this recognised in the Forward Work Programme.

Point 5: Full Chain Flexibility

We agree that flexibility for generation and storage of energy will support decarbonisation and we see potential for hydrogen to be stored for heat, but also to back up the power system when intermittent generation cannot meet demand, particularly in winter. To enable this, we think that methane and particularly hydrogen storage is going to be essential in helping to ensure a resilient and secure supply of heat and power as we transition to net zero.

The policy and regulatory environment must also recognise the criticality of considering whole energy system requirements and implications. It is unlikely that an affordable and secure whole energy system will switch from gas and electricity to electricity and hydrogen. Therefore, there is a good opportunity to ensure a place for all energy sources in a balanced market whilst still achieving net zero.

Point 7: Energy System Governance

We want to emphasise the importance of an aligned policy and regulatory framework to ensure the industry can deliver net zero ambitions at a faster pace in the most efficient manner which will

ultimately benefit consumers. We support the ambition for stronger strategic oversight and better coordination.

We support code governance reform, and we welcome Ofgem's approach of publishing when their decisions will be made but would encourage more efficiency in the decision-making process timeline.

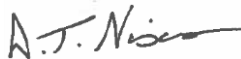
We also welcome the proposed strategic direction for energy (gas) and the role of Ofgem in this and look forward to being consulted on the future direction. We believe it is important to look at the strategic underpinning issues such as reform of governance and regulation that can set us up for success in delivering net zero infrastructure. Effective net zero governance with clear roles, responsibilities and accountabilities is essential to stimulate and support the significant levels of infrastructure investment required to achieve decarbonisation at the lowest cost to consumers, whilst retaining security of supply both in transition and at net zero. Making net zero a central priority of the regulatory framework will also ensure the energy transition is delivered in the best interests of consumers and the wider environment.

Point 8: Transforming Ofgem

National Grid Gas fully supports the Transformation Programme set out by Ofgem but must be delivered in a timely manner. It is important to note that, as with any internal change process, there is a clear risk for disruption, both to business as usual activities and to staff at the organisation. National Grid Gas offers whatever support it can in ensuring consistency. We would welcome how we can support during this change such as formalising an approach to meeting with new staff.

We trust Ofgem will find these comments useful, for further information or to discuss our response in more detail then please contact me directly.

Yours faithfully,



Tony Nixon

Regulation Director, NGG