

SGN LTS Futures Project

Ofgem consultation

City of Edinburgh Council response
02 February 2022

1. Introduction and general comments

- 1.1 Thank you for the opportunity to comment on the SGN LTS Futures Project consultation. The focus of this response is to offer the Council's support for the project and to highlight key interfaces with work underway in Edinburgh.
- 1.2 The Council, in partnership with community planning and city partners, has recently published the [2030 Climate Strategy](#) which highlights our uncertainties in relation to hydrogen. As a principle, the strategy focusses on electrification first action, where we work to ensure the network's capacity can respond to the substantive increases in the city's electricity demand while keeping an open mind to innovation in other energy sources, such as green hydrogen.
- 1.3 The Council supports the Scottish Government ambition to increase green hydrogen production capacity as set in the [Scottish Government Hydrogen Policy Statement](#) and [Draft Hydrogen Action Plan](#). It is also noted that the Climate Change Committee has emphasised that hydrogen use should be restricted to "areas less suited to electrification, particularly shipping and parts of industry" and providing flexibility to the power system, and that it does not see extensive use of hydrogen outside of these limited cases by 2035.
- 1.4 Edinburgh's 2030 Climate Strategy is focussed on heat decarbonisation opportunities, including opportunities for renewable energy, micro grids, heat network solutions, hydro energy (including electricity and heat) and measures to lower the cost of electricity and tackle fuel poverty.

Benefits of SGN LTS Future Project

- 1.5 The Council understands that the LTS project will enable SGN to test their network adaptability for conversion to hydrogen supply in the future. The benefits of hydrogen are dependent on the type of hydrogen and the settings in which it can be most beneficial. Any future decisions about the viability of hydrogen in Edinburgh will need to consider the hydrogen type, the wider energy demands to produce it, and the wider implications for its use in urban environments. The Council would expect hydrogen supply to be green (produced from renewable electricity) and that

its use is prioritised in hard to decarbonise parts of industry or other sectors where alternative clean energy solutions are not viable or economic.

- 1.6 The Council supports the needs case set out in the consultation paper noting the benefits to BEIS, and the HSE research programmes which have set out a need for research and live trials to be conducted on the LTS.
- 1.7 Pilots (such as LTS Future Project) may help to address some of the areas of uncertainty that exist in relation to the hydrogen network, hydrogen availability, and its cost.
- 1.8 Action from central governments is required to provide greater certainty to ensure local authorities are able to make well informed decisions on retrofit strategies for existing buildings, particularly for challenging building archetypes. For example, councils may target buildings where retrofit delivers most benefit, in the expectation that harder to retrofit buildings can be converted to hydrogen in the future. However, if hydrogen will take years to come and be comparative in cost to electricity then councils may make different decisions. Further detail on these uncertainties is set out below.
 - 1.8.1 The implications of UK Government decision on the gas network in 2026, leaves limited opportunity for any wider hydrogen adoption in Edinburgh within the 2030 timeframe. Establishing a more certain understanding of the future of the network capacity will be important to inform strategic decisions about the potential for hydrogen use in Edinburgh and the region.
 - 1.8.2 Local authorities and the retrofit sector need to have a greater understanding of the level and timeframes of future increase of hydrogen available locally (e.g. more detail about the supply and timeframes from proposed hydrogen hubs), to enable them to prioritise, plan and deliver solutions that help us to meet net zero targets.
 - 1.8.3 A greater understanding of the costs of hydrogen is needed. Challenges exist in how business cases offer returns and best value, given the high level of investment required, long (or absence of) payback, and the limited support funding available. To move away from gas dependence, improved projections for future electricity, gas, and potential hydrogen unit costs (and associated carbon charges) are needed. Current green book/BEIS figures do not necessarily capture costs effectively and improved guidance and frameworks are required to help local authorities and partners to develop decarbonised energy investment propositions that offer attractive returns that we can have confidence in.

Opportunities to link strategic action in Edinburgh

- 1.9 The [2030 Climate Strategy](#) highlights the need for Edinburgh's energy networks and supporting infrastructure need to change at speed. As a city we need to be able make decisions in a more strategic way, and position Edinburgh to maximise the commercial, carbon reduction, energy savings and resilience benefits potentially available.

- 1.10 Edinburgh's City Heat and Energy Partnership (currently being established and made up of key public and private sector organisations) is being tasked with co-ordinating investments and supporting the delivery of flagship actions for the city. This includes working with communities and developers to deliver heat networks that meet the needs of key public sector buildings and major new developments across the city (focussing initially on major new developments at Granton Waterfront and the BioQuarter).
- 1.11 While the SGN LTS project will deliver hydrogen to Granton, its use shouldn't be restricted to Granton only. The Western General Hospital site is near the Granton area and will also face a challenging pathway to net zero.
- 1.12 The Heat and Energy Partnership will also be working with governments and private and public sector partners to develop a long-term shared investment strategy and delivery mechanisms. This work will focus on maximising opportunities for local revenue generation and securing a clean and affordable renewable energy infrastructure for citizens and businesses.
- 1.13 The Council welcomes the SGN LTS Project and would welcome SGN and UK Government funding as it supports net zero delivery through partnership investment.
- 1.14 The Council would like to further strengthen this partnership with SGN and jointly consider how it might support Edinburgh's future approaches to financing net zero change and ensuring the economic benefits flowing from city partner investment in net zero action are retained at the local level.

2. Response to specific questions

- 2.1 Please note that the Council's responses here are high level only. Officers are available for any further detailed discussion, if necessary.

Question 1: Do you agree that this project should be approved, and at the value proposed?

- 2.2 As set out in the introduction section - the Council agrees with the project and accepts the indicated recommendations from Ofgem on the project valuation.
- 2.3 It is expected that the project will deliver value for both the public and consumer investment being made in it. As highlighted in the section *Benefits of SGN LTS Future Project* the project offers opportunities to address some of the strategic questions that exist in hydrogen energy development.

Question 2. Do you agree with our assessment of and additional requirements for SGN's project plan?

- 2.4 The Council is supportive of ensuring the project is delivered to a high quality with proportionate and transparent reporting on outcomes and deliverables, however the Council these aspects in sufficient detail to be able provide a view on the specific proposals at this stage. The Council would however ask that any reports are made

available to the City of Edinburgh Council to help inform Edinburgh's future heat and energy decisions.

Question 3. Do you agree with our proposals on how we will hold SGN to account for the project deliverables?

- 2.5 The Council supports the deliverables established by Ofgem and the caveat that should they not be satisfactory, a portion of the funding will be returned to consumers.

Question 4. Do you have any views on the appropriate funding approach for this project? / Question 5. Do you agree with our assessment of SGN's proposed level of contribution and treatment of benefits in kind?

- 2.6 The Council does not have a view on the specifics of these questions in addition to what has been set out already.

3. Contact details

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