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2nd February 2022

Wales & West Utilities (WWU) response to the Consultation on SGN's LTS Futures Project

Dear Duncan,

Please find attached response to the series of questions posed in the above consultation. If you want to discuss further, please do not hesitate to contact us.

Yours sincerely,



Carly Evans
Head of Regulation
Wales & West Utilities

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0800 111 999

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

Yes. As Ofgem recognise in the consultation document, this project is important as it contributes to BEIS' Hydrogen Grid Research and Development Programme. The pipeline that has been chosen as part of the project is a good example of a typical LTS pipeline. The inclusion of element 2: lab testing of different typical LTS pipe to ensure correlation and tolerance of acceptability is an extremely useful element to help identify any additional requirements for specific parts of the LTS. The six elements of the project cover a range of key areas, each of which builds on the last generating confidence and cover a range of evidence gaps.

We also agree that, in our judgment, the proposed value is appropriate as the project has the potential to provide a vast amount of evidence, knowledge and understanding for the repurposing of the LTS network. The outcomes of the project also have the potential to significantly reduce the cost of decarbonising the gas network.

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

We agree that a critical path plan of external dependencies for the project will be very useful. Having external milestones including approval from different regulators such as HSE sign off for the case for safety will be beneficial not only for the LTS futures project but also for other repurposing projects running parallel.

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

We agree that the deliverables from the project are extremely important to decarbonising the gas network. Ensuring that the deliverables are tracked is very important to the project and will allow any risks to these deliverables to be highlighted early and an action plan to be put in place. Deliverables that cannot be fully met for reasons beyond the control of the project should be flagged as soon as possible and look to be delivered through other means such as parallel or follow-on projects.

Question 4. Do you have any views on the appropriate funding approach for this project?

We believe consumers should fund this investment as it shapes future heat policy decisions for the energy transition.

We agree these costs should be socialised across the UK, but do not agree that such a large share should be recovered as fast money through the innovation mechanism. We would expect this to be dealt with as a separate mechanism allowing recovery over a number of years linked to consumer benefit.

Regardless of the long-term role of Hydrogen in the energy system has yet to be decided, the asset will be utilised in future until the government decision on heat policy. Even in an extreme scenario of winding down of the gas network, which is not indicated by current government

policy and is therefore many years away, it would still be appropriate to include an apportionment within RAV.

Question 5. Do you agree with our assessment of SGN's proposed level of contribution and treatment of benefits in kind?

As noted in other recent consultation responses, we do not agree that a default shareholder contribution of 10% is appropriate now that innovation focus has moved from cost savings to energy system transition. Major projects should be assessed on an individual basis and should not be considered to set precedent for following activity. As these proposed projects also shape and benefit government policy it isn't always appropriate to expect private investment to support consumers.

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