

Response to Ofgem consultation on SGN's LTS Futures project

ENA Gas Network member response to consultation on Ofgem's views of the project needs case, cost allowance and funding approach

ENA RESPONSE

Energy Networks Association represents the companies that operate and maintain the gas and electricity grid network in the UK and Ireland. Serving over 30 million customers, they are responsible for the transmission and distribution network of “wires and pipes” that keep our lights on, our homes warm and our businesses running.

ENA is agnostic to the technology or fuel mix that is used to achieve Net Zero commitments. We believe it will be a balanced, whole energy system - underpinned by both electricity and gas networks - that will deliver the most secure and affordable energy fit for our future and that of future generations. ENA members consider that if our power, heat, transport, waste and industrial sectors are all interdependent, then so must the solutions for their decarbonisation.

Background

In 2020, the Prime Minister unveiled with the Ten Point Plan some of the most ambitious proposals yet for growing Britain's hydrogen economy. Government support for hydrogen, including its use to support industrial decarbonisation, was restated in the UK Hydrogen Strategy published in August 2021.

Through Energy Networks Association's Gas Goes Green programme, Britain's gas network companies have made clear their commitment to creating the world's first zero carbon gas grid, here in the UK, and to delivering the innovation projects needed to tackle the operational and technical challenges associated with the deployment of hydrogen and biomethane.

The UK has the opportunity to create the world's first zero carbon gas grid. However, other countries (e.g. Germany and Australia) are already pushing ahead, so there is a significant cost of inaction. Establishing a world leading hydrogen economy in the UK could deliver:

- 221,000 jobs and £176bn of private sector investment across the UK
- A major contribution to our Net Zero targets across power, heat, transport and industry
- Help deliver the decarbonisation of heat in the least cost way, minimising disruption for consumers and up-front costs
- Create new UK-based green industries and a whole new supply chain

As companies investing in this sector, ENA gas network member companies have a pipeline of projects that will invest £6.8 billion in gas innovation projects over the next decade¹. We are ready to move ahead with c£1bn of investments, including a series of 'shovel ready' projects right across the UK to help start to realise the benefits across the country and deliver a green recovery from the pandemic.

¹ Net Zero Innovation Impacts (2021) ENA Gas Goes Green <https://cdn.prgloo.com/media/c4cb08563d814a8395e80361be12f1c3.pdf>

As regulated monopolies, which are publicly and directly accountable to the energy regulator Ofgem, Government and Parliament through a price control system, energy networks act as an important lever of public policy. With the right long-term policy and regulatory frameworks, the network companies can continue to perform this important role.

CONSULTATION QUESTIONS AND RESPONSES

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

Yes. In their Local Transmission System (LTS) Futures project proposals SGN have demonstrated the needs case and that the project represents value for money.

The Local Transmission System is a key part of the gas network and the wider energy system and so needs to be tested to inform decision making. LTS Futures is part of the BEIS Hydrogen Grid Research and Development Programme which is ensuring government have the necessary evidence to inform their decision on the role of hydrogen in decarbonising heat. As well as evidence on LTS infrastructure the project will also provide learning on linepack capacity and energy delivery that will be important for managing the future hydrogen network.

The project costs represent value for money. ENA supports the inclusion of the contingency fund of 5% total costs, to protect the project against risks including material costs.

ENA believes there to be a robust case for the funding of LTS Futures to account for real price effects (RPEs). While project funding will be indexed by inflation some of the costs faced by SGN and contractors are likely to change at a different rate to the economy-wide inflation measure. A methodology would need to be agreed, which could then form a precedent for future projects of a similar nature.

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

Yes. ENA agrees with the additional requirements requested of SGN, namely a revised stakeholder engagement plan and a critical path plan that makes clear significant external dependencies such as approvals from landowners. These changes can further support the project's value for money case.

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

Yes. The requirement for SGN to report Ofgem on project status periodically during the project and at its end is acceptable. ENA's electricity and gas network members have experience in such reporting from NIC projects undertaken during RIIO-1.

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

ENA supports Ofgem's minded to position. We recognise the view that since no decision has been taken by government on the long-term role of hydrogen for heating - and that LTS Futures is providing evidence that will contribute to that decision - that a charge on all GB gas consumers is appropriate.

As has been set out in gas network RIIO-2 business plans, several other projects are planned to further contribute evidence to inform this decision. Ofgem's minded to position on funding for LTS Futures may inform reopener applications.

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

No. ENA believes a middle ground should be found between SGN's proposed contribution and Ofgem's minded to position. We believe this is appropriate both for the contribution of this specific project and in principle, and so to be the approach used for future projects of this type.

As well as innovation this project is preparing for the roll out of hydrogen networks and as such the 10% contribution should not be expected across all project costs. Ideally this proposed level of contribution would be decided through separate consultation but we have concerns on the delay that this would cause and the impact that it would cause on this project's timelines.

Investment is required for both electricity and gas networks under RIIO-2 to commence delivery of net zero and setting a precedent of a 10% contribution may discourage development of innovation projects necessary to deliver the preferred net zero network.