

Consultation



Making a positive difference
for energy consumers

Schedule 1: Proposed Direction to SGN

To:

Scotland Gas Networks plc ('SGN' or '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. SGN is the holder of a licence granted or treated as granted under section 7 of the Gas Act ('the Act').
2. On 31 October 2021, SGN submitted a Re-opener application¹ in respect of the needs case, option selection and forecast costs of a project to demonstrate whether the Local Transmission System (LTS) can be repurposed to carry hydrogen (LTS Futures or the "Project"). On 5 January 2022 we consulted on the needs case and efficient costs for the Project². Having considered the consultation responses, on 10 March 2022, we published our decision and approved £29.94m in nominal 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 SGN 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 24 March 2022.
5. We received [number] 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.]

Approved funding for the Project

¹ <https://www.ofgem.gov.uk/sites/default/files/2022-01/Annex%20-%20SGN%20NZASP%20Application%20-%20Redacted.pdf>

² Available at <https://www.ofgem.gov.uk/publications/sgn-local-transmission-system-lts-futures-project>

7. The approved amount is **£29.94m**, in nominal values. Further details on the funding value are set out in our decision published on 10 March 2022³.
8. Of the approved amount, SGN will contribute £2.99m in cash and benefits in kind. The remaining £26.94m, equating to £23.77m in 18-19 values, will be recovered by NGGT, through NTS Transportation Owner Charges⁴, and transferred to SGN. 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 SGN must occur in accordance with Special Condition 6.1.13 of NGGT’s Licence. SGN 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 3 of their Re-opener application⁵;
 - (ii) complete all the deliverables set out in Annex 2 of this Direction; and
 - (iii) share the learnings from the Project as set out in the knowledge dissemination plan referred to in deliverable 1 a) of Annex 2 to this Direction.

Notifications and other project deliverables

11. SGN 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, SGN 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 consumers, pursuant to Special Condition 3.9.12 of SGN’s licence. .

NOW THEREFORE,

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

[Signature]

³ [link to decision document]

⁴ As defined in Special Condition 1.1.15 of National Grid Gas’ Gas Transporter Licence

⁵ Available at <https://www.ofgem.gov.uk/sites/default/files/2022-01/Annex%20-%20SGN%20NZASP%20Application%20-%20Redacted.pdf>

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
SGN plc	0.00	13.36	7.92	2.50	0.00	23.77

Annex 2: Project Deliverables

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

Reporting	Expected submission date
1. <ul style="list-style-type: none"> a) Revised stakeholder engagement plan and knowledge dissemination plan. b) Hydrogen ownership proposal, for Ofgem decision. 	30 Jun 2022
2. Recommendation on whether to progress modifications to Grangemouth to Granton pipeline and construct H ₂ supply infrastructure, including supporting evidence, for Ofgem decision.	1 Dec 2022
3. Recommendation on whether to progress to live trial, including supporting evidence, for Ofgem decision.	14 Sep 2023
4. Confirmation that the project has been completed	31 Mar 2025
5. Closedown report. This report should include the following: <ul style="list-style-type: none"> a) Confirmation that the project has successfully delivered a blueprint for future LTS repurposing and uprating projects. b) Confirmation that project learnings have been shared in accordance with the knowledge dissemination plan. c) Confirmation that SGN have submitted all necessary information to the HSE to demonstrate they have fully, or partially, closed the 45 evidence gaps listed in their submission, and that the HSE have raised no objections in response. d) Any further requirements set out in the Re-opener Governance Document. 	30 Jun 2025

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

REDACTED