

Schedule 2: Direction to NGGT

To:

National Grid Gas Transmission plc ('NGGT' or 'the Licensee')

Direction under Part F (Adjustment for the Distribution Networks' Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPSt) of Special Condition 6.1. (Transportation owner pass-through items (PTt))

General

1. NGGT 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 this project². Having considered the consultation responses, on 10 March 2022, we published our decision, where we approved £29.94m in funding for the Project. Further details on the funding value are set out in our decision published on 10 March 2022³.
3. This direction is issued pursuant to Part F (Adjustment for the Distribution Networks' Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPSt) of Special Condition 6.1 (Transportation owner pass-through items (PTt)) of NGGT's licence. It sets out the adjustments to the value of NZPSt. In particular, it provides for the payments to be made by the Licensee to SGN for the Project, as a result of the application made under Special Condition 3.9 of its licence. It is issued alongside a direction to SGN setting out the conditions to be met by them in relation to the Project.
4. 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 two responses and have placed all non-confidential responses on our website. Having considered those responses, we have decided to proceed with making this direction.

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>

³ Available at <https://www.ofgem.gov.uk/publications/sgn-lts-futures-project-decision>

6. NGGT and SGN both asked for clarification on the treatment of CPIH inflation in the funding to be collected and passed on to SGN. They noted that the direction specified these in both nominal and real 18-19 values, but that the value of these would diverge over time.
7. We agree that further clarification is required on this point. In line with standard policy for RIIO-2 re-openers, the level of consumer funding for the Project will be set in real 18-19 values, to allow for changes in the level of CPIH inflation. In both the funding decision and the proposed direction, we described the values in nominal figures, which reflected current forecasts for CPIH inflation. However, as set out above, the consumer funding will take account of outturn inflation. Therefore, we have amended paragraph 10 to make this clear. We have also added a new paragraph 12 to include a final reconciliation to take account of outturn inflation throughout the project.
8. SGN also submitted new evidence in respect of RPE impacts, noting that steel prices have risen by 40% since the start of the war in Ukraine, and that this could result in a £1.8m increase in project costs.
9. We have considered SGN's evidence but have decided not to make any changes to this direction. We think this is consistent with RIIO-2 policy on re-openers. We also note that the majority of the project's steel costs will be incurred in 2023-24, and the level of steel prices for that period remains highly uncertain. We therefore do not think that amending the direction in this way would be in the interest of consumers.

Payments to SGN under the Net Zero Pre-construction Work and Small Net Zero Projects

10. The approved amount of £29.94m for the Project comprises a £2.99m contribution from SGN, and £26.9m in consumer funding. The consumer funding is set in real 18-19 values. Based on the current GT2 Price Control Financial Model⁴ inflation forecasts, the nominal value of £26.94m equates to £23.77m in 18-19 values. This total of £23.77m will be recovered by NGGT, through NTS Transportation Owner Charges⁵, and transferred to SGN. Annex 1 sets out the amounts to be recovered in each Regulatory Year.
11. 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.
12. Following the end of the project on 31 March 2025, NGGT must confirm to SGN the cumulative nominal value of consumer funding, based on outturn inflation to the end of financial year 2024/25. NGGT and SGN must then carry out a reconciliation of this value against the amounts distributed to SGN by NGGT throughout the project, with any difference settled as an additional funding distribution from NGGT, or a funding return from SGN accordingly.

⁴ Available at <https://www.ofgem.gov.uk/publications/gt2-price-control-financial-model>

⁵ As defined in Special Condition 1.1.15 of National Grid Gas' Gas Transporter Licence

NOW THEREFORE,

13. The Authority, pursuant to the provisions of Special Condition 6.1, issues this Direction to NGGT. Furthermore, the Authority directs that Appendix 2 of Special Condition 6.1 Part F is amended as set out in Annex 1.

14. This Direction constitutes notice of reasons for the Authority's decision pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.

A handwritten signature in black ink, appearing to read 'J. Jeffs', is positioned above the text of the signature block.

Duly authorised on behalf of the Gas and Electricity Markets Authority

6 April 2022

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