

Decision

National Grid Transmission Project Union Feasibility Phase Decision

Publication date:	25 April 2023
Contact:	Catherine Warrilow
Team:	Networks
Telephone:	020 7901 7452
Email:	catherine.warrilow@ofgem.gov.uk

This document sets out our¹ decision on National Grid Transmission's (NGT's) Project Union Feasibility Phase Project, which was submitted under the Net Zero Pre-Construction Work and Small Project (NZASP) Re-opener in December 2022. We published a consultation on our initial assessment of this re-opener submission on 17 February 2023. Following reviewing of the consultation responses, we have decided to approve funding of a total amount of £5.626m under the NZASP re-opener. Our reasons for this decision are set out in this document.

¹ The terms 'we', 'us', 'our' refers to the Gas and Electricity Markets Authority (the Authority). Ofgem operates under the direction and guidance of the Authority.

© Crown copyright 2023

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the [Open Government Licence](#).

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at:

10 South Colonnade, Canary Wharf, London, E14 4PU.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to: psi@nationalarchives.gsi.gov.uk

Contents

National Grid Transmission Project Union Feasibility Phase Decision	1
1. Introduction.....	4
Context and related publications	4
Decision-making stages	5
General feedback.....	5
2. Consultation responses and our decisions.....	6
General.....	6
Our consultation position, summary of responses and our final decisions	7
Needs case.....	7
Project design and efficient costs	8
Project deliverables and direction	16
Appendices	19
Appendix 1 – Direction to NGT	20

1. Introduction

Section summary

This section introduces our decision on NGT’s Project Union feasibility phase re-opener application.

Context and related publications

- 1.1 In December 2022, NGT submitted a re-opener application for the feasibility phase of Project Union under the RIIO-2² Net Zero Pre-Construction and Small Project (NZASP) re-opener which is found in Special Condition 3.9. of NGT’s Gas Transporter Licence.³
- 1.2 Project Union (the Project) aims to create a hydrogen transmission network in Great Britain to transport 100% hydrogen by repurposing existing gas transmission network infrastructure with minimal new infrastructure by the early 2030s. This re-opener funding decision covers the feasibility phase of Project Union which will look at phasing strategy, pre-Front End Engineering and Design (pre-FEED) activities and hydrogen enabling activities over a 12-month period from January 2023.
- 1.3 On 17 February 2023 we published our consultation on our minded-to position to approve £5.024m in funding for the Project. The consultation closed on 17 March 2023 and we received 11 responses.
- 1.4 This document sets our funding decision for the Project. We are also issuing a direction to set out adjustments to the NZPS_t term under SpCs 3.9 and 6.1 of NGT’s licence which can be found in Appendix 1 of this decision document.
- 1.5 Related publications can be found here:
 - NGT’s Project Union Feasibility Phase Application⁴
 - NGT Project Union Feasibility Phase Consultation⁵
 - NZASP Governance Document⁶

² RIIO stands for Revenues = Incentives + Innovation + Outputs

³ Licences available on the Electronic Public Register: <https://epr.ofgem.gov.uk/>

⁴ <https://www.nationalgas.com/about-us/business-planning-riio/our-riio-2-business-plan-2021-2026/our-riio2-reopener-applications-2021-2026>

⁵ <https://www.ofgem.gov.uk/publications/ngt-project-union-feasibility-phase>

⁶ <https://www.ofgem.gov.uk/sites/default/files/2023-01/NZASP%20Guidance%20v1.2.pdf>

-
- RIIO-2 Re-opener Guidance and Application Requirements Document⁷
 - Notice of decision to modify the Gas Transporters licence conditions.⁸

Decision-making stages

Date	Stage description
17/02/2023	Stage 1: Consultation open
17/03/2023	Stage 2: Consultation closes (awaiting decision), Deadline for responses
From 17/03/2023	Stage 3: Responses reviewed and published
25/04/2023	Stage 4: Consultation decision

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

⁷ <https://www.ofgem.gov.uk/publications/re-opener-guidance-and-application-requirements-document-0>

⁸ <https://www.ofgem.gov.uk/publications/decision-modifications-gas-transporters-riio-2-nzasp-re-opener-licence-conditions-and-nzasp-re-opener-governance-document>

2. Consultation responses and our decisions

Section summary

This section outlines a summary of the consultation responses to questions we asked at the consultation stage, and our final decisions.

General

- 2.1 We received 11 responses to the consultation and have published all non-confidential responses on our website.
- 2.2 We have summarised our consultation positions and our final decisions on each issue below, taking into account the responses that we received.
- 2.3 Our decision is to approve the following amounts for the Project:

Table 1: Project Union funding decision

Cost category	NGT proposed costs, 18/19 prices (£m)	Ofgem consultation proposed adjustments, 18/19 prices (£m)	Ofgem final adjustments, 18/19 prices (£m)	Ofgem funding decision, 18/19 prices (£m)
Programme management	0.339	-0.132	-0.132	0.207
Technical delivery	1.270	0	0	1.270
Implementation strategy	0.859	-0.164	0	0.859
Commercial frameworks	0.332	-0.332	-0.332	0
Supply chain	0.462	0	0	0.462
Regulation	0.343	-0.343	-0.343	0
Market needs analysis	0.694	-0.281	-0.281	0.413
Network modelling	1.051	0	0	1.051
Asset management plan	0.178	0	0	0.178
Construction plan	1.039	0	0	1.039
Engineering policy review	0.559	-0.559	0	0.559
Data collection	0.678	0	0	0.678
Hydrogen policy	0.108	-0.066	-0.066	0.042
Contingency*	-	-0.453	-0.507	-

<i>Contribution**</i>	0	-0.558	-0.625	-
Total	7.912	-2.888	-2.286	5.626

*Reduction of 7.5% to 0% contingency on work packages to be partially or fully funded.

**10% contribution calculated on £6.251m proposed allowance after adjustments.

2.4 We are also issuing a direction with the finalised project deliverables, in accordance with Special Condition 3.9 and 6.1 of NGT’s Gas Transporter Licence. The direction is set out in Appendix 1 of this document. Project deliverables are project specific outputs which demonstrate delivery of the project plan that funding is being awarded for.

Our consultation position, summary of responses and our final decisions

Needs case

Consultation position

2.5 We agreed with the needs case set out by NGT, noting NGT have highlighted how Project Union aligns with wider UK and EU hydrogen strategies. We considered the Project would provide some clear direct benefits to natural gas consumers and support government decisions on the future role of hydrogen.

Decision rationale and consultation responses

2.6 Having considered the responses, we have decided to maintain our consultation position that the Project provides some clear direct benefits to natural gas consumers and have therefore decided to provide funding under the NZASP mechanism.

2.7 Generally, stakeholder responses were supportive of the Project and needs case but three respondents disagreed with the proposed level of funding. Two respondents commented that the NZASP re-opener mechanism was the correct funding mechanism for the Project and another stakeholder said they supported funding under the NZASP re-opener.

2.8 Stakeholders said the proposed Project will be a valuable enabler for the UK’s future hydrogen economy and will provide a crucial step in meeting the UK’s decarbonisation objectives. One respondent stated hydrogen transport infrastructure away from hydrogen production “Superplaces” is critical for resilience and growth in the UK’s hydrogen economy. Furthermore, respondents

said it is sensible to evaluate repurposing parts of the existing natural gas transmission system.

- 2.9 One stakeholder encouraged explicit recognition of the importance of interconnection between Northern Ireland and Great Britain as part of Project Union and recommended that an interconnector transition strategy should be within the scope of the Project.
- 2.10 We address concerns over the total funding proposed in the “Project design and efficient costs” section below, where we discuss our final decisions on funding of individual work packages, contingency and contribution levels.

Project design and efficient costs

Work packages

Consultation position

- 2.11 We considered NGT’s project plan was broadly satisfactory. However, we did not consider that all the costs and activities had been justified or fell within the scope of the re-opener. Of the 13 work packages, our minded-to position was to fund six, partially fund four and disallow three, as set out in Table 2.

Table 2: Consultation positions on funding work packages

Proposed to fund	Proposed to partially fund	Proposed to disallow
<ul style="list-style-type: none">• Supply chain• Technical delivery• Network modelling• Asset management plan (AMP)• Construction plan• Data collection	<ul style="list-style-type: none">• Programme management• Implementation strategy• Market needs analysis• Hydrogen policy	<ul style="list-style-type: none">• Commercial frameworks• Regulation• Engineering policy review

Decision rationale and consultation responses

- 2.12 Having reviewed the consultation responses, we have decided to fund eight, partially fund three and disallow two of the 13 work packages, as set out in Table 3.
-

Table 3: Decision on funding work packages

Decision to fund	Decision to partially fund	Decision to disallow
<ul style="list-style-type: none">• Supply chain• Technical delivery• Network modelling• Asset management plan (AMP)• Construction plan• Data collection• Implementation strategy• Engineering policy review	<ul style="list-style-type: none">• Programme management• Market needs analysis• Hydrogen policy	<ul style="list-style-type: none">• Commercial frameworks• Regulation

Work packages we have decided to fund

2.13 We have decided to maintain our consultation position and fund the following six work packages, which all stakeholders agreed with:

- **Supply chain** (£0.462m)
- **Technical delivery** (£1.270m)
- **Network modelling** (£1.051m)
- **Asset management plan (AMP)** (£0.178m)
- **Construction plan** (£1.039m)
- **Data collection** (£0.678m).

2.14 Having considered the responses, we have also decided to fund the following two additional work packages where our consultation position was to partially fund or disallow:

- **Implementation strategy** (£0.859m) – our consultation position was to disallow £0.163m of costs relating to ‘submission of funding request documents for FEED’ outcome as there wasn’t clear justification to distinguish this work package from other outcomes in other work packages. We have decided to now fund these costs. NGT provided sufficient justification as part of their consultation response that this will deliver ongoing development of the needs case and associated socio-economic benefits, ensure outputs across the technical workstreams and wider market activities are aligned and coherent and develop an overall submission for FEED. Based on this explanation, we are satisfied this work is different from the other work packages and will therefore fund £0.859m for this work package.
-

-
- **Engineering policy review** (£0.559m) – our consultation position was to disallow this work package to avoid the duplication of work as it was not clear how this work differs to other work being done in industry already. Two respondents, including NGT, disagreed with our consultation position. One respondent urged Ofgem to reconsider the level of funding for this work package as they consider it an important element of the Project and argue the area is unlikely to be progressed at the pace necessary to facilitate decarbonisation without appropriate funding. As part of its consultation response, NGT provided more detail about this work package. NGT said that this work will be looking at approximately 580 NGT specific documents relating to policy, management procedure, work procedure and specifications. NGT said that while the industry has started gathering information on harmonised technical standards, the majority of its detailed engineering policies are currently gas transmission specific rather than adopted from industry. NGT have highlighted that their internal policies will require significant resource to understand how they can be developed for a hydrogen transmission system, and that this work package is needed to start the review process. We think it's prudent to establish which policies have the most significant impact on the NTS and we would want the developed framework to be able to ensure engineering policies are completed, approved and adopted. We think the individual outcomes and success criteria for this work package align with the additional justification NGT provided as part of their consultation response. We are satisfied with the level of funding for this work package and have therefore decided to allow £0.559m funding for this work package.

Work packages we have decided to partially fund

2.15 We have decided to maintain our consultation position and partially fund the following three work packages:

- **Programme management** (£0.339m) – as proposed in our consultation, we have decided to remove project workspace costs of £0.132m, but will fund the remaining £0.207m of the work package which aims to embed project management processes and provide assurance and reporting for the Project. Three stakeholders, including NGT, disagreed with our position to remove the project workspace costs. One respondent said that, as a principle, they believe resource costs should include overheads to allow the resource to function effectively. Another respondent stated a common office should be considered for efficient and timely communication and
-

interaction. NGT highlighted the importance of a dedicated space for cross calibration to deliver a project of this scale; however, they added that they will continue to explore options to achieve this. We agree that it is reasonable to include overheads required to allow the resource to efficiently function but disagree that the only solution for effective working is via relocating a team into one office. For example, hybrid working and satellite teams can work effectively together. We therefore think office relocation is a corporate operating decision which should come under business as usual (BAU) totex allowances.

- **Market needs analysis** (£0.694m) – we have decided to disallow £0.281m for activities relating to having a “fully informed stakeholder landscape” but allow £0.413m for gathering intelligence to feed into the business case, evidence base and transition plan. Three stakeholders, including NGT disagreed with our consultation position to partially fund this work package. Two respondents highlighted the importance of communicating with stakeholders, saying that consumers need to be fully aware of future decarbonisation options and lack of this engagement could lead to them making inefficient decisions. NGT said this work will provide evidence of new uses for hydrogen such as aviation, maritime, freight, rail and include how hydrogen and hydrogen transmission can contribute to net zero. We agree that it will be beneficial for Project Union to provide evidence of potential new sectors and uses for hydrogen but think this will be achieved via the £0.413m funding we are allowing to gather intelligence, which we understand will develop new relationships and articulate the value of hydrogen to stakeholders. The detailed outcomes from the stakeholder landscape activities that we have decided to disallow funding for are:

- (1) Consumer research confirms increase advocacy for hydrogen
 - (2) Number of letters of support
 - (3) Favourable strategic direction from policy makers
 - (4) Campaign analytics
 - (5) Engagement with hub/online content
 - (6) Centralised stakeholder/industry wide communications, publications and engagement.
-

We do not consider that these outcomes provide clear value to consumers in providing industry coordination or creating evidence of new sectors, so have maintained our consultation position to disallow the costs relating to this outcome.

- **Hydrogen policy** (£0.108m) – we have decided to disallow costs relating to evaluating, discussing and developing new hydrogen policies (£0.066m), but allow £0.042m for reviewing existing policy on hydrogen in power, industry, transport and heat. NGT stated there is a missed opportunity to understand what policy makers require from Project Union by disallowing funding relating to evaluating, discussing and developing new hydrogen policies. Another respondent disagreed new policy should be regarded as BAU and that it is logical to follow the review of current policy and its impact on Project Union with a piece on what changes or new policies are required. We agree this work is important but do not think it is appropriate for natural gas consumers to fund one network company to carry out this work. The Department for Energy Security and Net Zero (DESNZ) are leading the policy development relating to hydrogen transport infrastructure, including via development of the Hydrogen Transport Business Model.⁹ We think it's unclear why natural gas consumers should fund NGT specifically to input in policy development which is being led by government. We encourage NGT and other industry participants to feed into DESNZ's policy development processes, but we consider it BAU for network companies to engage with emerging policies which affect their business.

Work packages we have decided to disallow

2.16 We have decided to maintain our consultation position and disallow the following two work packages:

- **Commercial frameworks** (£0.332m) – We have decided to disallow all costs for this work package. Four respondents disagreed with our consultation position to disallow costs relating to this work package. These stakeholders highlighted the importance of maturing technical and commercial aspects together and said a commercial framework needs to be in place to support Project Union. We agree with respondents that it is important to consider the commercial frameworks for hydrogen and that

⁹ <https://www.gov.uk/government/consultations/proposals-for-hydrogen-transport-and-storage-business-models>

this work needs to be progressed at pace. However, we think this policy development should be led centrally via DESNZ and Ofgem forums. As this work will develop a commercial framework for a nascent market, we do not think it is appropriate for natural gas consumers to fund one network company to lead this work. Two respondents also compared this work package to funding we awarded through NZASP to fund development of the regulatory and commercial frameworks for the Hydrogen Village Trial (HVT). The work on regulatory and commercial frameworks for the HVT is different to the work proposed as part of Project Union. The HVT is a time-limited conversion trial. The HVT regulatory and commercial frameworks work that we funded is specific to implementing this trial and is not developing enduring solutions for future hydrogen markets, which is what Project Union is aiming to do.

- **Regulation** (£0.343m) – We have decided to disallow all costs relating to this work package. Four stakeholders disagreed with our consultation position to disallow costs relating to this work package. These respondents thought this work package goes beyond BAU activity given the vast scale and complexity involved and is crucial to having an operational backbone by the early 2030s. As with the commercial frameworks package, we agree that this work is important but note that DESNZ are leading on the development of the regulatory framework for the hydrogen transport business model (HTBM) with Ofgem and industry supporting this. We encourage NGT and other industry participants to feed into this policy development, but do not think it's appropriate for natural gas consumers to fund an incumbent gas network company to develop a regulatory framework for the nascent hydrogen market. We acknowledge that developing frameworks for a nascent market has more complexity than amended existing policies. However, we do consider it BAU for network companies to engage with emerging policies which affect their businesses and we still think this applies to hydrogen. We also intend to consider interactions between the HTBM and the next natural gas price control as part of the development of both of these models.

Contingency

Consultation position

- 2.17 NGT proposed a 7.5% contingency level for the Project and outlined the top five risks to support this. We did not agree the contingency had been justified and therefore proposed to reduce this rate to 0%.
-

Decision rationale and consultation responses

- 2.18 Five stakeholders, including NGT, disagreed with a reduction to 0% contingency level with 7.5% being broadly argued as modest or already low by industry standards. One stakeholder felt it was unreasonable to reduce contingency from 7.5% to 0% after reducing the funding total. There was also concern from another stakeholder that 0% contingency would support a lack of transparency by encouraging project risk becoming hidden in different cost allocations. NGT reiterated the risks that further stakeholder engagement could change the direction of the assessments, the scope of work is still being developed, and ongoing recruitment of both internal and external resources could lead to higher costs than expected.
- 2.19 We acknowledge respondents concerns around a 0% contingency and have compared this Project to others ongoing in industry, taking into account scale and outputs. We have decided to maintain our consultation position and reduce the contingency rate from 7.5% to 0%. As this is a 12-month feasibility desktop study, we would expect relatively reliable scope of work cost estimates to have been developed and the risk is substantially lower compared to projects that include elements such as asset builds or maintenance. NGT have also already [redacted] to mitigate [redacted]. NGT have also mitigated the planning scenario not reflecting customer and stakeholder requirements by engaging with a wide range of stakeholders to inform the Project. If there is significant change in scope as the Project develops, the new work areas can be considered for funding through another price control mechanism or as part of the next FEED. We therefore think the risks already have appropriate mitigations in place, and do not think extra contingency is justified.

NGT cost contribution

Consultation position

- 2.20 NGT proposed no direct company contribution as part of their re-opener submission. We proposed a 10% contribution due to the innovative nature of the Project and to bring it in line with other similar projects which included a 10% compulsory contribution.

Decision rationale and consultation responses

- 2.21 Of responses which addressed our proposal to include a 10% compulsory company contribution, one stakeholder agreed and five stakeholders disagreed. Four of the stakeholders which disagreed voiced specific concerns over this which were:
-

-
- A contribution was not appropriate or consistent with the use of the Net Zero and Re-opener Development Fund use it or lose it allowance (NZARD UIOLI), which doesn't require a company contribution
 - NGT have assumed upward cost risk and therefore an appropriate and prescriptive approach to a contribution level should be adopted
 - Ofgem's position discourages investment in innovative projects and that contribution should be dictated by terms of commercial agreements between Ofgem and NGT
 - It is not clear that NGT could receive substantial benefits from this project and that they would receive a return that the regulator considered reasonable at the time the relevant price control was set.

2.22 The fifth stakeholder, NGT, disagreed that they need to provide a compulsory company contribution, but proposed that any contribution could be based on funding totals of what they consider to be the innovative portions of the Project. They consider this to be the hydrogen market enabling activities, which total approximately £2.403m (18/19 values). Therefore, NGT suggest a 10% contribution of approximately £240,300 (18/19 prices), subject to our final decision on funding specific work packages.

2.23 We have reviewed respondents concerns around a compulsory cost contribution. We have decided to maintain our consultation position and include a 10% compulsory contribution by reducing costs to reflect this £0.625m. We consider Project Union is a substantially innovative project and is contributing to the evidence base for future hydrogen use. We agree it is unclear the level of benefits NGT could receive from the Project; however, a government decision in favour of hydrogen would lead to very substantial network benefits. We think this is a characteristic of innovation projects, where the benefits are potentially significant but uncertain, and we therefore think it is appropriate for NGT to share the risk with consumers by providing a similar level of contribution to projects funded via our innovation mechanisms. We also note similar projects have included a compulsory contribution (Cadent's HyNet FEED¹⁰, the HVT Detailed Designs and SGN's LTS Futures Project¹¹), and 10% is the default level of expected contribution for substantially innovative projects as per Chapter 2 of the NZASP guidance. The assumption that NGT will assume upward cost risk is also inbuilt

¹⁰ https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determinations_-_cadent_annex_revised.pdf - Chapter 2

¹¹ <https://www.ofgem.gov.uk/publications/sgn-lts-futures-project-decision>

into the NZASP re-opener mechanism, as this does not include a mechanism to increase the funding without issuing a new direction. We therefore disagree that this justifies NGT not providing a company contribution. We also don't agree that the approach to company contributions needs to be the same for NZASP and the NZARD UIOLI as these are different funding mechanisms. The materiality of NZASP projects are greater and the NZARD UIOLI has clear spending limits across the RIIO-2 price control period, unlike NZASP.

Project deliverables and direction

- 2.24 Directions are issued by Ofgem to give effect to our NZASP re-opener funding decisions in accordance with SpC 3.9 and SpC 6.1 of the NGT's Gas Transporter Licence.
- 2.25 Project deliverables are project specific outputs which demonstrate delivery of the project plan that funding is awarded for. These deliverables sit within the direction, meaning these should be met as a condition of receiving funding through the re-opener.

Consultation position

- 2.26 We set out the proposed directions for NGT to govern the NZASP funding, including a range of project deliverables. We welcomed views on these deliverables as part of the consultation process and said we may make clarifications or amendments to these as a result.
- 2.27 As part of the proposed direction, we set out that we were minded to fund the Project through NGT's pass through mechanism using the NZPS_t term. This means funding would be excluded from totex incentivisation and RAV capitalisation as opposed to funding through the NZP_t term which forms part of totex. We believed this approach was appropriate for a feasibility study, particularly as the long-term benefits to natural gas consumers are still uncertain. This is also consistent with funding provided for similar hydrogen related projects, including the HyNet FEED study.
- 2.28 We noted that SpC 3.9 and SpC 6.1 were amended as part of our decision on the statutory modification to the RIIO-2 Gas Transporters' NZASP licence conditions published on 31 January 2023, which will take effect from 29 March 2023.¹² Part of these modifications enable NGT to request NZASP funding via the pass-through

¹² [Decision on modifications to the Gas Transporters' RIIO-2 NZASP re-opener licence conditions and the NZASP Re-opener Governance Document | Ofgem](#)

cost mechanism using the NZPS_t term. As such, our minded-to position to fund the costs through funding using the NZPS_t term was subject to the licence modifications coming into effect.

Decision rationale and consultation responses

- 2.29 Having considered the responses, we have decided to maintain our consultation position on both the deliverables and the Project direction and make recommendations to NGT based on key aspects highlighted in stakeholder's responses. The final direction along with the Project deliverables is set out in Appendix 1 of this document.
- 2.30 NGT provided updated Project deliverable deadline dates which reflect a change of Project start date from January 2023 to April 2023. NGT have also updated one Project deliverable name from "Data Provision and Enrichment" to "Hydrogen Data Requirements Defined" and noted that the evidence point remains the same. We accept these changes as we consider the Project outputs remain unchanged. The Project deliverable table has been updated and can be found in Appendix 1 Annex 2 of this document.
- 2.31 Respondents were generally supportive of the proposed Project deliverables. Three respondents raised similar comments around knowledge sharing, with suggestions that the close-out report should be widely shared alongside a close-out webinar to be held for stakeholders. One respondent thought the outputs of all the project deliverables should be published to maximise knowledge sharing. Another respondent suggested it may be appropriate to add an explicit requirement to maintain engagement with GDNs throughout.
- 2.32 Six respondents offered comments on amending or adding to the Project deliverables, these suggestions were:
- A reduced number of deliverables would be more practical given the short project duration
 - Proactive stakeholder engagement as a deliverable
 - Consideration of Interconnection between GB and NI should be added to several relevant deliverables such as strategic options paper, phasing strategy, market analysis report and FEED scope development
 - The Phasing Strategy deliverable should consider options for accelerating the deployment of Project Union in line with 2030 backstop date
 - Deliverables for cost and schedule should be included as part of the study
-

-
- The market needs analysis deliverable needs to be expanded in upstream direction to incorporate access to hydrogen supply.
- 2.33 With regards to the proposed project direction, one response suggested expansion of paragraph 12 to align with the NZASP guidance, allowing for a) under or non-delivery if the network licensee provides a well-reasoned justification and b) returning or some contributions due to meeting all project conditions at a lower-than-expected cost, such as a material efficient underspend or early project termination.
- 2.34 We note specific points raised by respondents, such as those listed in paragraph 2.32 above. Whilst we agree Project Union should consider these aspects, we do not think specific project deliverables need to be included for each of these detailed points as we want the number and detail of deliverables to be proportionate to the Project's duration. For example, the Project deliverable to provide the Phasing Strategy does not detail all the considerations that will go into this report, so we do not think it is consistent or proportionate to specify as part of the project deliverable that this should consider accelerating the deployment of Project Union or interconnection between GB and NI. However, we recommend NGT consider the points set out above as they continue with Project Union and action where applicable. We note that the required close down report requires NGT to report to us how the project learnings have been shared with relevant stakeholders, which will provide oversight around knowledge dissemination. We encourage NGT to consider holding a close-out webinar for stakeholders as part of this knowledge dissemination. We also think the NZASP re-opener mechanism provides sufficient oversight over costs, so do not think a specific project deliverable is needed for this.
- 2.35 As the statutory modification to the RIIO-2 Gas Transporters' NZASP licence conditions came into effect 29 March 2023, our decision is to fund costs via the pass-through cost mechanism using the NZPS_t term.¹³
- 2.36 We do not think it is necessary to expand Paragraph 12 of the direction to align with NZASP governance document, version 1.2, Section 2.20 as per paragraph 2.33 above. The NZASP governance document applies and we therefore do not think this is required as it would be a duplication.

¹³ <https://www.ofgem.gov.uk/publications/decision-modifications-gas-transporters-riio-2-nzasp-re-opener-licence-conditions-and-nzasp-re-opener-governance-document>

Appendices

Index

Appendix	Name of appendix	Page no.
1	Direction to NGT	20

Appendix 1 – Direction to NGT

This appendix sets out our direction for NGT.

To:

National Gas Transmission plc ('NGT' or 'the Licensee')

Direction under Parts A and C of Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener) and Part F (The Distribution Networks' and NTS' Net Zero Pre-Construction Work and Small Net Zero Projects Re-opener (NZPS_t)) of Special Condition 6.1 (Transportation owner pass-through items (PT_t)) of NGT's Gas Transporter Licence

General

1. NGT is the holder of a licence granted or treated as granted under section 7 of the Gas Act ('the Act').
2. In December 2022, NGT submitted a Net Zero Pre-Construction Work and Small Projects Re-opener application for the feasibility stage of Project Union to consider how parts of the current gas National Transmission Systems could be re-purposed to carry hydrogen ('the Project').¹⁴ On 17 February 2023 we consulted on our assessment and minded-to decision for this Project¹⁵. Having considered the consultation responses, on 25 April 2023, we published our decision and approved £5.626m (18/19 values) in funding for the Project.
3. This direction is issued pursuant to Parts A and C of Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener) and Part F (Adjustment for the Distribution Networks' and NTS' Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPS_t)) of Special Condition 6.1. (Transportation owner pass-through items (PT_t)). It sets out the approved funding, adjustments to the value of NZPS_t and the Regulatory Years to which that adjustment relates, as well as the conditions to be met by NGT in relation to the Project, as a result of the application made under Special Condition 3.9 of its licence.

¹⁴ <https://www.nationalgas.com/about-us/business-planning-riio/our-riio-2-business-plan-2021-2026/our-riio2-reopener-applications-2021-2026>

¹⁵ <https://www.ofgem.gov.uk/publications/ngt-project-union-feasibility-phase>

4. In accordance with 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 17 March 2023.

5. We received 11 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. We summarised our consultation minded-to decisions and our final decisions, taking into account the responses we have received from stakeholders in the decision document which has been published together with this direction.

Approved funding for the Project

7. The approved amount is £5.626m, in 18/19 values. Further details on the funding value are set out in our decision published on 25 April 2023¹⁶.

8. The approved amount of £5,626,000 NGT will be recovered by NGT, through NTS Transportation Owner Charges¹⁷. Annex 1 sets out the amounts to be recovered in each Regulatory Year and attributed to the Licensee. In addition to the funding approved, NGT will provide a contribution of £625,000, in 18/19 values.

Project Funding Conditions

9. In accordance with Special Condition 3.9.6 and the NZASP Re-opener Governance Document, 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 sections 6 and 8 of their re-opener application and the decisions made above;
- ii. complete all the deliverables set out in Annex 2 of this direction; and
- iii. share the learnings from the Project, including publishing the learnings on NGT's website.

Notifications and close-down report

10. NGT 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.

11. At the end of the Project, NGT must submit a close-down report to the Authority setting out how it has completed the deliverables set out in Annex 2 below.

¹⁶ See Chapter 2 of this document.

¹⁷ As defined in Special Condition 1.1.15 of National Grid Gas' Gas Transporter Licence

12. 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 Part A of Special Condition 3.9 of NGT's licence and the NZASP Re-opener Governance Document.¹⁸

NOW THEREFORE,

13. The Authority, pursuant to the provisions of Special Condition 3.9, Part F of Special Condition 6.1 and the NZASP Re-opener Governance Document, issues this Direction to NGT.

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 be 'J. G. S.', is positioned above the text 'Duly authorised on behalf of the Gas and Electricity Markets Authority'.

Duly authorised on behalf of the Gas and Electricity Markets Authority

25 April 2023

¹⁸ <https://www.ofgem.gov.uk/sites/default/files/2023-01/NZASP%20Guidance%20v1.2.pdf>

Annex 1: Funding value

This annex sets out the amendments to be made to NGT's licence. The figures below are expressed in 18/19 values.

Special Condition 6.1 Part F Appendix 2

Net Licensee Funding and 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
NGT National Gas Transmission plc	0.00	1.159	4.467	0.00	0.00	5.626

Annex 2: Project Deliverables

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

Reference	Final Project deliverable	Deadline	Evidence
1	Project Management	31/05/2023	Detailed Delivery Plan in place
2	Defined assumptions for modelling activity	30/06/2023	Proposed assumptions for modelling shared through Ofgem engagement sessions.
3	Strategic Options Paper	31/12/2023	Strategic Options Paper (this may be integrated into pre-FEED report)
4	Phasing Strategy	31/01/2024	Initial Phasing Strategy shared through Ofgem engagement sessions Updated Phasing Strategy document shared through Ofgem engagement sessions
5	Pre-FEED studies complete	31/01/2024	Pre-FEED Report
6	Market Analysis Report	31/01/2024	•Market Assessment Report, including evidence of stakeholder engagement •Customer Impact Assessment
7	FEED Scope Developed	31/01/2024	FEED Scope Document
8	Hydrogen Data Requirements Defined	31/03/2024	Data requirements specification for existing assets and provision methodology
9	Re-opener documents for FEED	31/03/2024	Re-opener submissions available for first sections moving to FEED stage.
10	Supply Chain Assessment	28/02/2024	Supply Chain Assessment Report
11	Submission of close-down report	01/04/2024	This report should set out: a. How the Project Union Feasibility Phase has been successfully delivered, as set out in its re-opener application, and any instances of under or non-delivery. b. How the project learnings have been shared with relevant stakeholders.

			c. Any further requirements set out in the Re-opener Governance Document.
--	--	--	---