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Consultation: Future of local energy institutions and governance

Dear Fiona,

Thank you for the opportunity to respond to the above-mentioned consultation. This non-confidential response is sent on behalf of National Gas Transmission.

We have provided input into the joint network response submitted by the Energy Networks Association (ENA), which reflects the collective views of transmission and distribution networks for both gas and electricity.

We have opted to supplement the positions included in the ENA submission with a short response in our own right to address, at a high level, some considerations pertinent to gas networks, and more specifically the gas transmission network. What we include here is aligned to key messages in our upcoming response to Ofgem's consultation on [frameworks for future systems and network regulation](#) which closes on 19th May.

We have chosen to respond in summary form in the annex that follows rather than address the consultation on a question-by-question basis.

We hope that this response is helpful to Ofgem's thinking on this important topic. If you have any questions or comments, please do not hesitate to contact Craig Neilson, Future Regulatory Frameworks Manager, Gas Transmission Regulation (craig.neilson1@nationalgas.com).

Yours sincerely

[by email]

Tony Nixon
Regulation Director, Gas Transmission

Annex: Summary Consultation Response

A cross-vector, whole energy system outlook is vital

With a number of initiatives underway in the electricity sector (including RIIO-ED2 price control now underway and plans being developed in place for the 'day one' operation of the new Future System Operator (FSO) in 2024) it is understandable that this consultation has a particular electricity focus. However, the consultation provides the opportunity to emphasise our views on the vital importance of a whole system, cross-vector approach as part of the energy transition and beyond within Ofgem's thinking and policy development.

- Although a decline in annual demand is generally seen as the trajectory for methane, it will still continue to play a critical role in energy security and resilience during the energy transition, acting as an underlying insurance policy throughout, particularly in relation to the desired penetration of intermittent renewable electricity. Ongoing investment will be required in the gas network to maintain these energy security properties, and this will need to be delivered in the context of an efficient and effective whole energy system transition.
- For gas transmission we need to ensure recognition is given to the critical role the network provides in energy security by having the infrastructure to move energy from where it enters the system to where it is needed by consumers at all times, including under peak conditions. Our role as integrated system owner and operator enables this to happen both efficiently and effectively. A far wider view on the level of resilience is needed moving forward and the benefits this brings to all energy consumers, under peak conditions it is the only reliable and controllable means of power generation; this should be decoupled from the potential decline in annual demand.
- Hydrogen will play a major role in decarbonisation, with some certainty around its role in industry and power generation, and also potential to play a significant role in transport and heat. It is therefore vital that Ofgem includes hydrogen in its thinking on national and regional infrastructure planning, again in the context of whole energy system transition and the essential need for energy security.
- Specifically for gas transmission, our plans to develop a hydrogen transmission backbone for the UK involve potentially transforming significant parts of the existing transmission network. Not only is this a particularly cost-effective solution, it also significantly mitigates decommissioning and asset stranding risks arising from the longer-term decline in methane consumption. This underlines the critical need for cross-vector infrastructure planning, and regulatory and commercial frameworks that are enabling to such societally valuable projects.
- It is important to note that so long as there is one customer that is connected to the network and using methane, then the network operator and any planning body must be focussed on the safety of the entire network up to that customer. This engineering challenge has a commercial and planning impact, because it will not be possible to change an investment pattern in gas network infrastructure because only say half of the original number of customers are connected.
- To neglect these areas risks suboptimal whole system investment decisions, and narrowed opportunity for a smart, flexible and resilient energy mix for the UK.
- Coordination is essential between any regional level planning body(ies) and those considering a national perspective, this will help ensure economies of scale and holistic solutions are developed and implemented. There are elements of the essential energy

infrastructure that must be considered/evaluated at a national level such as storage, resilience investments etc. where the benefits are delivered across a number of regions.

A significant role is already envisaged for the FSO, and roles, responsibilities and accountabilities will need exceptionally careful planning

Regulatory policy is developing across a number of very important and interrelated current and future developments which need to be carefully co-ordinated in order to maintain and enhance levels of energy security in the transition and beyond as well as helping mitigate overall cost to consumer.

Within the Ofgem consultation on frameworks for future systems and network regulation a significant role is envisaged for the FSO to deliver an independent, cross-vector view which is used to determine need and the most efficient delivery model. The specific split of accountabilities within this needs careful consideration for the gas transmission network.

Specifically for gas transmission, particular attention is required to how accountabilities are allocated moving forward owing to:

- The significant benefit of the integral nature of ownership and operation of gas network assets
- The need to ensure appropriate obligations with regards to maintaining resilient operation across the entirety of the network
- The need to optimise across assets rather than building significant volumes of new assets
- The need for development of consistent data processes and controls

We believe it will take some time for the FSO to reach full capability to undertake the envisaged whole energy system perspective and engagement. As we understand it, integrated network planning for methane, hydrogen or any other energy vector will not form part of this ‘day one’ activity and may take a significant period to develop. Consequently, interim measures will be required to bridge the gap and still deliver optimum solutions for energy security. These interim measures must unlock the necessary investment at pace – enabling future proofed decision making and implementation, without letting uncertainty hamper or delay positive action where there is demonstrable societal benefit in doing so.

Ultimately, more clarity will be needed on specific role boundaries, responsibilities and accountabilities of different “actors”, and how these will interact with each other and other stakeholders, including across energy vectors. Compatibility with a network’s obligations, particularly with regard to safety, resilience and energy security will need to be carefully considered, this should be considered as an evolution not a revolution.

An expanded FSO role might present challenges to implementation timeframes

Whilst we are fully supportive of the long-term vision of the FSO producing an independent, cross vector view we are concerned that the required capabilities will not be in place in time to contribute to future asset development/investment plans for regulatory periods beyond RIIO-2.

With a need to move at pace to achieve the Net Zero targets, we believe that enhancement of existing arrangements is key, and duplication or degrading of current roles and responsibilities should be avoided.

Without challenging the long-term validity of the proposals within this consultation, it is foreseeable that expansion of the FSO’s roles would be additive to overall implementation timelines and could protract transitional complexities at a time where there is much to be

delivered in order to deliver appropriate levels of energy security and value for money for consumers. This compounds our concerns regarding the timeliness of achieving the right capabilities within the FSO that will support the planning of methane and hydrogen networks (and other vectors) and the pace at which a whole system, cross-vector vision is realised.