

To: National Gas Transmission plc ('NGT' 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. National Gas Transmission plc ('NGT') is the holder of a Gas Transporter licence granted or treated as granted under section 7 of the Gas Act 1986 ('the Act').
2. In November 2022, NGT (as the gas owner) submitted a Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZASP) application¹ in respect of the needs case, option selection and forecast costs of a cluster of projects with the aim to improve the management of and reducing methane emissions from the National Transmission system. On 4 October 2023 we consulted on the needs case and efficient costs for this project².
3. Having considered the consultation responses, on 14 March 2024, we published our decision, where we approved £19.423mn in funding for the proposed Projects. Further details on the funding value are set out in our decision published on 14 March 2024³.
4. 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 NGT's NZPt term and the Regulatory Years to which that adjustment relates, as well as the conditions to be met by NGT in relation to the Projects.

¹ [Annex - SGN NZASP Application - Redacted.pdf \(ofgem.gov.uk\)](#)

² [Consultation on National Gas Transmission's methane emissions reduction and monitoring projects | Ofgem](#)

³ [National Gas Transmission's methane emissions reduction and monitoring projects - decision | Ofgem](#)

5. In accordance with Part C of Special Condition 3.9, the Gas and Electricity Markets Authority ("the Authority")⁴ published on its website the text of the proposed direction and stated that representations must be made on or before 12 April 2024.

Responses to the proposed direction

6. We received one response and have placed the response on our website. Having considered the response, we have decided to make a change to this direction.
7. *NGT submitted that although it welcomes our decision to make allowance for the respective methane projects, it is of the view that the allowance should be made using the NZPt term and not the NZPSt pass through term as set out in the proposed direction.*
8. *NGT claimed that using the NZPt term only will ensure that the Totex Incentive Mechanism (TIM) will apply, and in line with the RIIO framework will incentivise NGT to innovate and to deliver its outputs for the benefit of its consumers.*
9. *NGT also flagged that using the NZPt term alone will split the funding between fast and slow money, with the slow element charged to consumers over a longer period and therefore reducing the immediate increase in charges.*
10. *NGT also stated that it is not clear how overspend will be treated, and if NZPSt will be used, any overspend will be entirely borne by the licensee unless an increase to allowance is agreed with Ofgem.*

Our views

11. *After careful consideration and assessment of the impact of the proposed change to funding route, we are of the view that there are benefits in funding the projects using the NZPt term only, rather than NZPSt. We agree that the Licensee should be incentivised to reduce costs which will be shared with consumers if TIM is applied.*
12. *We also agree that splitting the cost between current and future consumers will ensure that reduction in methane emissions will be paid for by those who benefit from it, including future consumers.*

⁴ The terms "the Authority", "Ofgem", "our", "we" and "us" are used interchangeably in this document.

13. *We note that in our decision we justified using the NZSPSt term to ensure all gas consumers will pay for the benefit. As the customer base of NGT and the system operator is largely the same we don't consider this change material or impacting our views as reflected in our original proposed direction.*
14. *Therefore, we agree with NGT's response and have amended the direction to use the NZPt term only to fund NGT's methane projects under the NZASP re-opener.*
15. *As the change in the funding term does not materially change the outcome of the re-opener funding and has arisen from NGT's consultation response, we do not consider that further consultation is necessary.*

Approved funding for the Project

16. The approved amount is £19.423mn, in 2018/19 price base, based on the forecasts for inflation set out in the GT2 Price Control Financial Model (PCFM) published on 4 February 2022⁵. Annex 1 sets out the amounts to be recovered in each Regulatory Year.

Project Funding Conditions

17. 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 their Re-opener application⁶; and;(ii) complete all the deliverables set out in Annex 2 of this Direction;

Notifications and other project deliverables

18. 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.
19. Throughout the delivery of the respective projects, NGT must provide evidence of the deliverables as stated in the table below as part of the annual reporting: Regulatory Reporting Pack (RRP)⁷ covering the respective financial year. The information should include as a minimum:

⁵ Available at <https://www.ofgem.gov.uk/publications/gt2-price-control-financial-model>

⁶ [Our RIIO-2 re-opener applications \(2021-2026\) | National Gas](#)

⁷ Guidance and templates concerning the annual reporting requirements can be found here: [Notice proposing modifications to the Regulatory Instructions and Guidance \(RIGs\) RIIO-2 Year 2 for GT, GD and Regulatory Finance | Ofgem](#)

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- Progress (e.g. – tender, purchase, operation), including any risks to the timely delivery of the project should be set out in the RRP submission commentary.
 - Actual spend and forecast spend for the coming years should be included in the respective table in the RRP excel template.
20. 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 of this direction.
21. 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 3.9.7 of NGT's licence.

NOW THEREFORE

22. The Authority, pursuant to the provisions of Special Condition 3.9 and the NZASP Re-opener Governance Document, issues this Direction to NGT.
23. This Direction constitutes notice of reasons for the Authority's decision pursuant to section 38A (Reasons for decisions) of the Act.

Jourdan Edwards

Duly authorised on behalf of the Gas and Electricity Markets Authority

24/5/2024

Annex 1: Funding value

This annex sets out the amendments to be made to NGT's licence. The figures below are expressed in 2018/19 values.

Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPt) by Regulatory Year table

2021/22	2022/23	2023/24	2024/25	2025/26
0.290	1.804	8.559	6.949	1.821

Annex 2: deliverables

24. Throughout the delivery of the respective projects, NGT must provide evidence of the deliverables stated in the table below as part of the annual reporting to the Authority covering the respective financial year.

Project/FY ⁸	2023/24	2024/25	2025/26	2026/27
Pipeline recompression	Part payment of one high/low pressure pipeline recompression set.	Part payment of one high/low pressure pipeline recompression set.	Commissioned one high/low pipeline recompression set.	N/A
Compressor station and PIG trap recompression	Procurement and part payment of seven small recompression units for compressor station depressurisations and PIG trap venting.	Part payment of seven small recompression units for compressor station depressurisations and PIG trap venting.	Commissioned seven small recompression units for compressor station depressurisations and PIG trap venting.	N/A
CMT (site 1) [REDACTED] Combined Gas Recompression	Develop (Detailed design, order long lead materials, FEA ⁹ , FPSA ¹⁰)	Develop (Detailed design, FEA, FPSA)	Execute programme.	Close project/ Analysis and Report Findings
CMT (site 2) [REDACTED] Combined Gas Recompression	Develop (Detailed design, order long lead materials, FEA, FPSA)	Develop (Detailed design, FEA, FPSA)	Execute programme.	Close project/ Analysis and Report Findings
CMT (site 3) [REDACTED] Zero Loss Seal	Develop (Detailed design, order long lead materials, FEA, FPSA)	Develop (Detailed design, FEA, FPSA)	Execute programme.	Close project/ Analysis and Report Findings
CMT (site 4) [REDACTED] Zero Loss Seal	Develop (Detailed design, order long lead materials, FEA, FPSA)	Develop (Detailed design, FEA, FPSA)	Execute programme.	Close project/ Analysis and Report Findings
Expanded monitoring programme	Procurement of periodic fugitive emissions monitoring equipment ¹¹ and desktop/site-based training for the	Periodic fugitive surveys in-house of all compressor stations, terminals and multi-junctions using developed procedures. Survey 1/3 of other	Periodic fugitive survey at all compressor stations, terminals and multi-junctions. Survey 1/3 of AGIs not yet tested. Obtain	Periodic fugitive survey at all compressor stations and terminals and multi-

⁸ Any financial year ends on the 31st of the last year. 2022/23 ends on the 31st of March 2023.

⁹ Formal Environmental Assessment

¹⁰ Formal Process Safety Assessment

¹¹ This equipment was already funded.

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	team. Shadowing of third-party contractor carrying out existing periodic fugitive surveys for 2022/23. Development of monitoring procedures using own equipment.	AGIs. Participate in proficiency testing as a provider of periodic fugitive monitoring services and apply for accreditation.	accreditation for periodic fugitive monitoring methods to bring within scope of ISO17025 accredited laboratory.	junctions. Survey remaining 1/3 of AGIs not tested so all assets have been fully monitored at least once. Full report on monitoring results. This should include analysis of the findings and proposal for next steps (if relevant).
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