

Keren Maschler
Senior Manager Transmission Policy
Networks
Commonwealth House
32 Albion Street
Glasgow
G1 1LH

12 April 2024

RE: Decision on NGT methane emissions reduction and monitoring projects

Dear Keren,

We welcome the opportunity to respond to the above decision and licence direction document on behalf of National Gas Transmission (NGT), which can be published on Ofgem's website.

We are pleased the project has progressed to this stage and we are appreciative of the constructive and collaborative working with Ofgem. We have previously provided our views on the funding decision to Ofgem through our consultation response on the Ofgem draft decision. Whilst we are disappointed Ofgem have not agreed with our position on the funding allowance for the Detection and Analytics component of the project, specifically allowance for repairs. We are pleased that Ofgem have recognised the importance of timely repairs where leaks are found and that this creates risks of additional costs being incurred through the improved leak detection from the expanded periodic fugitive monitoring programme. We are also pleased that Ofgem have stated we can further engage on this matter where it becomes apparent that significant additional costs are being incurred because of improved detection.

More broadly we agree with the outcome of the Mobile Recompression and Compressor Machinery Train project components. However, NGT does not fully agree with the proposed direction and proposed changes to the Transmission Licence, specifically to Licence Condition 3.9 and 6.1. It is our view that that this funding allowance should be associated with the NZPt term, and not the NZPSt pass-through term proposed. Our rationale is documented below.

The general principle of the RIIO framework is for a network to innovate and be incentivised to deliver its outputs for the benefit of its customers. The Totex Incentive Mechanism (TIM) is a key part of the incentivisation.

The NZPSt term has been used previously to fund NGT's Project Union feasibility study¹. The rationale for this was that, as a hydrogen project, the long-term benefit to natural gas

1. ¹ [NGT Project Union Feasibility Phase - Decision | Ofgem](#)

customers was uncertain and therefore it was considered appropriate for the funding to be excluded from Totex incentivisation and RAV capitalisation. By contrast, the methane emissions reduction programme is relevant to current and future gas consumers / bill payers and they will receive benefit from the assets that are created as a result of this work.

As such, we believe such methane reduction initiatives should be funded through the re-opener NZPt term. Consequently, the funding will be subject to the totex incentive mechanism, with the 'slow' portion of funding capitalised on the RAV. If Ofgem do intend to use the NZPSt term to fund this project, we would be interested to understand the justification for this.

By using the NZPSt pass-through term, the full amount of the funding is reclaimed through allowed revenue, thereby introducing volatility into charges. By contrast, the NZPt term 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.

Special Condition 3.9.7 sets out how unspent net zero funding must be returned. It is not explained in the methane emissions consultation document how overspend should be treated. If directed through the pass through term NZPSt, then any project overspend (for example, as a result of unforeseen circumstances for prices rises), will be borne entirely by the licensee unless an increase to allowances is agreed with Ofgem. If the funding is directed through the re-opener term NZPt, then overspend would be shared between NGT and the consumer in line with the totex sharing mechanism, unless Ofgem directed the funding to follow the Use It Or Lose It (UIOLI) model. Particularly in the case that funding is directed through NZPt, as we have requested, we would appreciate a statement from Ofgem clarifying the treatment of overspend, should this arise.

We note the funding table in Annex 1 of the proposed direction to change LC 3.9 (Appendix 1), with the table presented under Special Condition 6.1 Part F Appendix 1 showing the methane emissions funding. We would like to highlight that the Project Union feasibility study funding was also directed through NZPSt¹, and the direction for the funding of this project set out the funding amounts in a separate table in Appendix 2 of Special Condition 6.1 Part F. If funding for the methane emissions reduction programme is funded via NZPSt, it would be preferable for the Project Union and methane emissions funding to be combined to clearly show the total amount of funding NGT may recover via NZPSt.

Lastly, we have also noted that throughout the document there is inconsistency with the presentation of '£m' and '£mn'. We would recommend the consistent use of '£m'.

We hope you find this response helpful. If you would like to discuss any of our response further, please do not hesitate to contact myself (neil.rowley@nationalgas.com, 07785 381424).

Yours sincerely,

Neil Rowley – By Email

Head of Regulatory Performance, Commercial – On behalf of NGT