

Reference

National Energy System Operator (NESO) licences and other impacted licences

Date

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DESNZ/Ofgem

Electricity Systems Team/ Future System Operation Team

Cadent Gas Limited

Pilot Way Ansty Park
Coventry CV7 9JU
United Kingdom
cadentgas.com

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Your Gas Network

By Email:

NESOproject@energysecurity.gov.uk and

FSO@ofgem.gov.uk

National Energy System Operator (NESO) licences and other impacted licences

Thank you for the updates and the opportunity to respond to this second consultation. This response is made on behalf of Cadent and can be published by Ofgem and the Department for Energy Security and Net Zero (DESNZ).

We were pleased to see the summarised responses to the previous consultations, including the Ofgem responses. However, we do not believe that all substantive questions and comments from stakeholders were sufficiently addressed within the consultation document including our some of our own response.

For example, in our response to the FSO Draft Licences Consultation, we requested information relating to the decision-making process on the inclusion/exclusion of each of the current National Gas Transporter/System Operator Licence conditions. The second consultation does not include the rationale for DESNZ's decision to omit or include the relevant National Gas Licence conditions. Furthermore, the consultation document does not include comments on why DESNZ considers it appropriate to not publish its rationale behind its decision making relating to inclusion/exclusion of National Gas Licence conditions.

We also raised the following specific queries on the Gas System Planner Conditions which have not been responded to:

- Condition C6 – Energy resilience and reporting: We suggested that the NESO create a design standard for this resilience so that the networks know to what extent they need to prepare (for example to cater for a 1 in 20 extremity).
- Condition C7 - Arrangements in coordinating market strategy: We requested clarity on the role of the NESO in the development of a new hydrogen market framework and how this might interact with a Code Manager (or the party building a hydrogen Code if it isn't the Code Manager). Whilst this strategic role is clear for electricity and methane, further clarity is required on how this would apply to hydrogen, including any interaction with Government or Ofgem activities.
- Condition C8 - Gas strategic network planning: We note again the need for whole system consideration as soon as possible. For example, large

Cadent Gas Limited

Registered Office: Pilot Way Ansty Park
Coventry CV7 9JU United Kingdom
Registered in England and Wales
No.10080864

National Gas Emergency Service
0800 111 999* (24hrs)

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power generators running on hydrogen converted from methane, have an impact on infrastructure and security across all vectors, and should be a consideration in the Day 1 planning, including a net zero power grid by 2035.

- Condition D2 – Information requests by the licensee: We note that networks would need funding for ad-hoc information requests and that this would result in higher costs for the business, whether individually or cumulatively. Rather than networks having to pursue re-openers for funding, or risk un-funded work if below de minimis thresholds, we'd like to propose an alternative mechanism. The NESO is provided with a budget (such as via a Use it or lose it fund) that is available for such ad-hoc activities. This would enable agile funding but would also ensure that controls are in place requiring the NESO to be economic and efficient in the information requests it places on other regulated networks. It would also establish an effective overall cap on the level of activity.

In addition, we have some specific comments about the UNC interactions proposed. As part of its gas strategic planning, forecasting and market strategy roles, we recognise the necessity and benefits of the NESO acceding to the Uniform Network Code (UNC). Code parties will continue to play an important role in evolving the UNC in the short to mid-term (alongside DESNZ's and Ofgem's energy code reform work) and incorporating the NESO into the UNC will connect its gas strategic planning role with code development.

The Gas Strategic Planner Licence and amended Gas Transporter Standard Licence proposes for the NESO to be able to raise UNC modifications. Whilst we support the provisions that permit the NESO to raise modifications (on the basis that they are independent and relate to their role as gas strategic planner), we believe that the NESO should meet the costs associated with their delivery. For instance, UNC modifications require administration by the Joint Office and accompanying draft legal text to comply with the UNC governance arrangements. In our view, formalising charging arrangements that oblige the NESO to meet the costs associated with the UNC modifications that it raises would promote accountability and support the efficient overall operation of the UNC. This could be achieved by introducing a provision that allows gas transporters to recover the costs they incur in administering NESO-raised modifications from the NESO.

We notice that the consultation document states that “we are not currently proposing any changes to the Joint Office Governance Arrangements, or to the ownership structure of the Central Data Services Provider (CDSP) for Day 1 of NESO”. However, the document doesn't include any rationale to support this proposal, resulting in consultation respondents being unable to understand and challenge the position where appropriate.

The consultation also proposes for the NESO to sign and accede to the Data Services Contract (DSC) with the Central Data Services Provider (CDSP). Like the above point regarding UNC administration, we consider checks and balances important in ensuring that the NESO utilises the CDSP's services in an economic and efficient manner. This is generally achieved by parties paying charges for the services that they access. Therefore, we think that the NESO should be subject to a level of DSC charges proportionate to their usage of CDSP services.



Finally, we request that the continued provision of gas supply and demand forecasts to the Gas Distribution Networks, which is a critical component of the efficient and effective operation of these gas systems, should be a clear requirement set out in the Licence or associated documents. These should continue to be provided with the same granularity and to the same timetable, with any variation subject to appropriate stakeholder engagement.

We remain committed to supporting the NESO's transition and would welcome a response to the points we have raised above and we would be happy to discuss all of the above comments with both DESNZ and Ofgem further.

Yours sincerely

Stuart Easterbrook
Head of Net Zero Energy Frameworks, Cadent