

To:

National Gas Transmission plc

Date: 20 June 2025

Direction under Special Condition 3.9 of the Gas Transporter Licence held by National Gas Transmission plc to add allowances for the Net Zero Pre-construction work and Small Net Zero Projects Re-opener.

General

1. National Gas Transmission plc ('the Licensee') is the holder of a licence granted or treated as granted under section 7 of the Gas Act 1986 ('the Act').
2. Special Condition ('SpC') 3.9 provides a re-opener mechanism by which the Licensee may seek additional funding during the RIIIO-2 price control period for Net Zero Pre-Construction Work and Small Net Zero Projects.
3. The Licensee applied under SpC 3.9 on 30 April 2024 for funding relating to the PU: East Coast Project ('the Project'). The Authority publicly consulted on its Draft Determinations between 28 March 2025 and 25 April 2025. The consultation included a draft of this Direction, as required by Part C of SpC 3.9.
4. We received 13 direct responses to our proposal to fund the NGT PU: East Coast FEED project and have placed all non-confidential responses on our website. All 13 responses were in favour. Having considered those responses, we have decided to proceed with making this Direction.

Approved funding for the Project

5. The approved amount is £32.16m in 2018/19 values. Further detail on the funding values are set out in our Final Determinations published on 20 June 2025.
6. The approved amount of £32.16m will be funded through the NZPt term within SpC 3.9. Annex 1 sets out the amounts to be recovered in each Regulatory Year. In addition to the funding approved, the Licensee will provide a contribution of £4.33m in 2018/19 values.

Project funding conditions

7. In accordance with Special Condition 3.9 and the NZASP Re-opener Governance Document, the Licensee must comply with the following conditions in undertaking the Project. It must:
 - a. undertake the Project in accordance with the description set out in its re-opener application,

- b. complete all the deliverables relating to the Project as set out in Annex 2 of this Direction,
 - c. inform the Authority promptly in writing of any material change to the cost of the Project or any material event or circumstance that is likely to delay the Project or affect its ability to deliver the Project as set out in its submission; and,
 - d. as part of the close-down report, set out how it has completed the deliverables set out in Annex 2 below.
8. 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.
9. We also consider it best practice for the Licensee to share learnings from the Project, including publishing the learnings on the Licensee's website.

NOW THEREFORE,

10. This Direction is issued pursuant to SpC 3.9 and sets out approved funding, adjustments to the value of the relevant term (NZPt) and the regulatory years to which that adjustment relates. These are set out in Annexes 1 and 2 of this Direction.
11. This Direction will take effect immediately. This Direction constitutes notice stating the reasons for the decision for the purposes of section 38A of the Act.

Yours sincerely,

Pete Wightman

Deputy Director Price Control Operations

For and on behalf of the Authority

Annex 1: SpC 3.9 Net Zero Pre-construction Work and Small Net Zero Projects (£m, 2018/19 prices)

Project/Regulatory Year	2024/25	2025/26	2026/27	2027/28	2028/29	Total
National Gas Transmission PU: East Coast Project	0.00	16.08	16.08	0.00	0.00	32.16

* Note: these allowances have been calculated using the RIIO-2 Totex Incentive Strength for the TIM adjustment. If the published TIM adjustment for NGT changes for RIIO-3 then the allowances for 2026/27 and the Total should be updated using the formula, and as set out in the Table A below:

$$[\text{Allowance, £m}] = [\text{Assessed Efficient Cost, £m}] - [\text{Company Contribution, £m}] / [\text{Totex Incentive Strength, \%}]$$

Table A: Allowance adjustment for changes in Totex Incentive Strength
Regulatory Year Final Allowance Formula (£m, 2018/19 prices)

2024/25	$0.00 - 0.00/39\% = 0.00$
2025/26	$21.63 - 2.165/39\% = 16.08$
2026/27	$21.63 - 2.165/TIS_{R3}$
2027/28	$0.00 - 0.00/TIS_{R3} = 0.00$
2028/29	$0.00 - 0.00/TIS_{R3} = 0.00$

Where TIS_{R3} is the licensee's RIIO-3 Totex Incentive Strength.

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, it must notify Ofgem of this at least two weeks beforehand, setting out the reasons for the delay and a revised submission date.

Ref.	Report	Deliverables	Evidence	Anticipated delivery dates
1	Technical Development	Finalised short list of preferred technical option(s)	Final set of options for final capex estimation and rationale.	September 2026
2	Technical Development	Flow assurance transient analysis to inform pipeline sizing	Further assessment updating from application detail.	December 2025
2	Technical Development	Delivery Plan	High level update summary of how the FEED will be delivered and how long it will take to be delivered An updated program, which may request updates to the deliverables table.	October 2025
3	Supply and Demand	a) Customer and producer connections b) MOU's, data capture forms and letters of support obtained for the identified core network: • Users • Producers • Storage Providers c) Identify requirement of commercial arrangements from all off-takers, producers, and storage companies	Progress report on consumers and project partners. Updated supply and demand volumes.	Interim updates June 2026 December 2026
4	Land, planning and Consents	a) Consultation Strategy in place b) Route Corridor Study c) Preliminary Route Report	a) short report confirming plan in place for consultation and rough outline. b) +c) Route planning update. d) Confirmation of progress on public engagement including overall public	March 2026

Ref.	Report	Deliverables	Evidence	Anticipated delivery dates
		d) Public project Launch	project launch, website and regional updates.	
5	Land, planning and Consents	Non-Statutory Consultation	Confirmation of launch. Details of outcomes, analysis and key concerns /support in final FEED study	February 2027
6	Commercial Package	a) Cost of the project to deliver (CAPEX and OPEX) for each leg b) Class 4 Overall Project Cost Estimate c) Commercial risk identification and mitigation measures	a) High level Interim update on main project costs in word format (not excel). List changes from initial expectations as detailed in application. b) Cost estimate before the final FEED cost estimate c) Mid FEED risk register update report. Any new risks identified? Any risks declined?	Interim October 2026
7	Commercial Package	Update Cost Benefit Analysis	Changes to previous assumptions.	Interim February 2026
8	Project close down reports and FEED study	FEED study	Report and annexes	October 2027
9	Project close down reports and FEED study	Supply, demand and storage risk assessment		October 2027
10	Project close down reports and FEED study	a) Close down report b) Redacted close down report	<ul style="list-style-type: none"> a short summary of the project background; a short summary of the scope of the project; the outcomes of the project; highlighting objectives met successfully; highlighting objectives not met successfully; any learnings for future similar projects; any recommendations for the supply chain to ensure scalability of hydrogen; review of spending and cost versus plan; identification of any unspent Approved Amounts which should be returned to the gas consumer; identification of any overruns and reasons for overspending; and Customer and producer connections 	October 2027