

25th of April 2025

Allan Rankine
10 South Colonnade,
Canary Wharf,
London,
E14 4PU

Dear Allan,

Re: RIIO-2 NZASP Re-opener Draft Determinations: East Coast Hydrogen FEED – Northern Gas Networks Response to Consultation

We welcome the opportunity to respond to Ofgem's consultation following the publication of the draft determination regarding the NZASP Re-opener submission. I would like to confirm that our response may be published on Ofgem's website.

Attached to this letter as Appendix 1 is our response to the specific questions raised by Ofgem in the consultation document.

We look forward to Ofgem's final determination once the consultation and review are complete. We are eager to collaborate with Ofgem on the successful delivery of the FEED for NGN's East Coast Hydrogen project.

Where additional clarification or information is required, please contact Chris Verity at cverity@northerngas.co.uk or +44 (0) 7831 376835.

Yours sincerely,



Greg Dodd
Regulation and Strategic Planning Director

**we are
the network**

Northern Gas Networks Limited is registered in England and Wales, no. 05167070.
Registered office: 1100 Century Way, Thorpe Park Business Park, Colton, Leeds LS15 8TU



Part of your monthly gas bill goes towards keeping your gas supply flowing and providing a fast and efficient emergency response service if you smell gas.

To find out more visit: northerngasnetworks.co.uk/yourgasbill

For information on how we use your details please visit: northerngasnetworks.co.uk/legal-information



northerngasnetworks.co.uk



+44 (0) 113 397 0034



1100 Century Way, Thorpe Park Business
Park, Colton, Leeds LS15 8TU

Appendix 1: Northern Gas Networks Consultation Response

Q1. Do you agree with our Draft Determination not to provide funding for the WWU Hyline Cymru project FEED study?

Disagree.

Ofgem's decision not to fund the Hyline Cymru project by Wales & West Utilities risks delaying decarbonisation efforts in Wales, where industries rely on gas for a cost-effective and practical transition. The draft determination also raises concerns about unclear criteria and its impact on industries unable to fully electrify or adopt alternative solutions. Additionally, the decision raises questions about fairness across the UK customer base, as consistent support for decarbonisation projects is essential for equitable progress nationwide.

Q2. Do you agree with our assessment of the Needs cases for the three East Coast FEED studies?

Agree.

We accept Ofgem's NGN ECH Needs Case assessment due to its alignment with UK policy and strategy. We outline the specific benefits and needs case of the ECH project in our re-opener submission as part of Paper 2.

Q3. Do you agree with our proposed approach to protect consumer value by standardising our approach to funding in some areas?

1.1 Contingency Level

Agree.

We accept Ofgem's decision to allow NGN the requested 10% contingency level. We consider this appropriate given the risks associated with a FEED-stage project.

1.2 Private Contribution

Disagree.

NGN considers that this contribution should be treated as a benefit-in-kind. As outlined in our submission documents, NGN privately invested £3m in the upstream elements of the Redcar Village trial, and the benefits realised can be directly attributed to supporting the success of this project. The benefits of the ECH programme will benefit all gas consumers and society as the UK transitions to net zero. This is like the work undertaken on the Redcar Village Trial. The output of the investigations for the Redcar Village Trial has yielded additional benefits that we consider will support the progression of ECH and for which shareholders have contributed funding beyond the requirements of the NZASP.

Smell gas?

Call the National Gas Emergency
Service on 0800 111 999



1100 Century Way
Thorpe Park Business Park
Colton, Leeds LS15 8TU



0113 397 5300



northerngasnetworks.co.uk

**we are
the network**

In applying a proportionate approach and ensuring any transferred benefit is shared with consumers, NGN would only claim 50% of the benefit as a Benefit in Kind, equating to this project's private contribution.

We agree with Ofgem's approach to not charging customers twice for the same work and equally agree that we should be driven to deliver efficiencies to keep costs as low as possible. NGN's track record stands clearly above other companies and sets the benchmark for this. The same should apply to private contributions consistent with the framework set up by Ofgem to progress these re-openers.

1.3 The Number of FEED studies funded by the gas consumer per project

No comment.

1.4 Additional Costs

No comment.

1.5 Land, Planning and Consent Costs

No comment.

1.6 Regulatory Treatment

Agree.

NGN accepts Ofgem's decision to allow funding of the ECH project via the NZPt term in the licence and the implementation of a TIM impact adjustment.

However, as noted in our re-opener submission, our preferred approach is for the Totex mechanism to be applied to NGT and for the funding for NGN's FEED to be transferred directly from NGT to NGN. This approach would allow NGT to recover costs through NTS charges on customer bills. As a result, the costs would be distributed evenly across Great Britain, minimising the impact on individual customer bills.

Although the NGN ECH network is a regional scheme, the project offers national benefits by facilitating a more cost-effective transition to net zero in the UK. Additionally, the insights and lessons learned from NGN's FEED, which will be made publicly available as outlined in our funding agreement, can be utilised for other hydrogen network initiatives being developed across the UK. This perspective aligns with the NZASP guidance provided in Section 2.21b.

Furthermore, whilst accepting the decision on this re-opener, as part of our commitment to hydrogen and driving a net-zero future, we would like to highlight that the selected funding proposal, leveraging the NZPt re-opener mechanism, features a Totex Cap Rate of 2 (70% slow / 30% fast). NGN contends that the identified expenditures for the project do not qualify as CAPEX, due to the uncertainty that there might be no income-generating asset resulting from the completion of the FEED.

Smell gas?

Call the National Gas Emergency
Service on 0800 111 999



1100 Century Way
Thorpe Park Business Park
Colton, Leeds LS15 8TU



0113 397 5300



northerngasnetworks.co.uk

**we are
the network**

If the Totex mechanism is to be applied directly to NGN and not through NGT, our preferred approach would be to maintain Ofgem's proposed Totex framework, but adjusting the Cap Rate to 1 (34% slow / 66% fast), which would more accurately reflect the nature of project expenditure.

We recognise that this adjustment would impact customer bills in the short term. However, we maintain that the nature of this spending does not align with its categorisation as a 70% slow money item, and we are concerned about establishing a precedent where OPEX costs are funded through such slow recovery mechanisms.

We also accept Ofgem's decision to implement a TIM adjustment mechanism to ensure a 10% contribution from NGN. It is our understanding that in a scenario where NGN spends Efficient Project Costs, NGN will contribute £1.88m, which equates to a 10% contribution, as shown in the example below.

Table 1. Use of Efficient Project Cost Scenario

18/19 Prices	£m	
Efficient Project Costs	18.88	
Draft Allowances	15.04	
Actual spend	18.88	
Over/underspend of Draft Allowances	3.84	
TIM true-up of Draft Allowances - Customer funded (51%)	1.96	
Total Draft Allowances	17.00	90.0%
TIM true-up of Draft Allowances - NGN funded (49%)	1.88	10.0%

Since the TIM is an incentive mechanism, we understand that the company contribution increases in a scenario where NGN overspends. Hence, it is not just our customers who bear the cost. Likewise, in a scenario where NGN underspends, the company's contribution decreases as an incentive to spend costs efficiently. Both these scenarios have been exemplified below.

Smell gas?

Call the National Gas Emergency
Service on 0800 111 999

a 1100 Century Way
Thorpe Park Business Park
Colton, Leeds LS15 8TU

t 0113 397 5300
w northerngasnetworks.co.uk

**we are
the network**

Table 2. Overspend Scenario

18/19 Prices	£m	
Efficient Project Costs	18.88	
Draft Allowances	15.04	
Actual spend	19.30	
Over/underspend of Draft Allowances	4.26	
TIM true-up of Draft Allowances - Customer funded (51%)	2.17	
Total Draft Allowances	17.21	89.2%
TIM true-up of Draft Allowances - NGN funded (49%)	2.09	10.8%

Table 3. Underspend Scenario

18/19 Prices	£m	
Efficient Project Costs	18.88	
Allowance	15.04	
Actual spend	18.5	
Over/underspend of Draft Allowances	3.46	
TIM true-up of Draft Allowances - Customer funded (51%)	1.76	
Total Draft Allowances	16.80	90.8%
TIM true-up of Draft Allowances - NGN funded (49%)	1.70	9.2%

Based on this interpretation of Ofgem's proposed mechanisms, we accept Ofgem's decision.

Q4. Do you agree with our proposal to approve funding for the Cadent East Coast North project under the NZASP re-opener mechanism, and at the value proposed?

Agree.

We support Ofgem's decision to fund the Cadent East Coast North project under the NZASP re-opener mechanism.


Q5. Do you agree with our minded-to decision to approve funding for the NGN East Coast project under the NZASP re-opener mechanism, and at the value proposed?

Agree.

We accept Ofgem's decision to approve the ECH project funding under the NZASP re-opener mechanism and the proposed financial value.

Smell gas?

Call the National Gas Emergency
Service on 0800 111 999

 1100 Century Way
Thorpe Park Business Park
Colton, Leeds LS15 8TU

 0113 397 5300
 northerngasnetworks.co.uk

**we are
the network**

In our response to Q3 we have highlighted our specific responses to Ofgem's decision regarding the 10% cash-based private contribution and the proposed TIM adjustment mechanism.

Q6. Do you agree with our minded-to decision to approve funding for the NGT PU: East Coast project under the NZASP re-opener mechanism, and at the value proposed?

Agree.

We support Ofgem's decision to fund the NGT PU: East Coast project under the NZASP re-opener mechanism.

Q7. Do you agree with our proposed deliverables for Cadent, NGN and NGT?

Agree.

We accept the project deliverables outlined in Table 6 of the Consultation document. The dates specified in this table are based on a final determination made by June 2025, allowing funding for the ECH FEED to commence. Any delay in a final determination will directly affect these timelines. Deliverables set out by Ofgem in the final determination should therefore consider the consequences of a delay. Additionally, the first phase of the NGN FEED study will focus on the works relating to enabling Project Union; any delays in NGT's final determination will also impact NGN's ability to meet the deliverables highlighted in Table 6.

Q8. Do you agree with our proposed directions for Cadent, NGN and NGT?

Agree.

We accept Ofgem's proposed direction for NGN, as set out in Appendix 2 of the draft determination document. We also accept the project funding conditions relating to this direction and the adjustment made to the NZPt identified in Annexes 1 and 2.

As highlighted in our response to Q7, if there are any delays to the final determination being made in June 2025, the anticipated deliverable dates in Annex 2 will need to be updated accordingly to reflect this delay.

Smell gas?

Call the National Gas Emergency
Service on 0800 111 999



1100 Century Way
Thorpe Park Business Park
Colton, Leeds LS15 8TU



0113 397 5300



northerngasnetworks.co.uk

**we are
the network**