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Ofgem Draft Determinations: East Coast and HyLine Cymru hydrogen network FEED funding applications consultation response

Dear Allan,

We are responding to the consultation for the draft determination on HyLine Cymru hydrogen network FEED funding. Please find our response and key points outlined below which includes a detailed response to points 3.6 - 3.15 raised in the draft determination document.

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

WWU response – key points

No, we do not agree with the Draft Determination on Hyline Cymru. Our application has followed the guidance provided for the Net Zero Pre-Construction and Small Projects Re-opener, following the triggering of the reopener at Ofgem's acceptance of our Needs Case in May 2024. We do not agree with the primary reasons set out as the feasibility study referenced in our application set out the viability of the project irrespective of access to geological storage and lower demands from Tata Steel, and involves mature partnerships with hydrogen producers and users.

The Draft Determination appears to be based on criteria in relation to strategic policy aims which were not clear at the point of application, and which are not a sound basis for such a decision. First, references to Hydrogen Transport Business Model rely on criteria for round 1 applications in relation to connection to geological storage, which may not apply to future rounds. Second, the NIC's National Infrastructure Assessment (NIA) provides an advisory perspective on infrastructure requirements, not a policy framework, and was published in

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October 2023 prior to Ofgem's acceptance of the Needs Case for Hyline Cymru. In contrast both the South Wales Industrial Cluster Plan and WWU's feasibility study for Hyline Cymru, referenced in our application, demonstrate the feasibility for hydrogen in the region irrespective of demands for steel and links to geological storage. We provide more detail on this below.

We note that the Draft Determination does not appear aligned to Ofgem's statements on its role in relation to decarbonised gas infrastructure. Ofgem has noted elsewhere that "Supporting low-carbon hydrogen is a priority for Ofgem as it is essential to achieve the Government's Clean Energy Superpower and Growth Missions".¹

Process and Guidance Followed

As per the Net Zero Pre-Construction and Small Projects Re-opener guidance, Table 1, a full needs case was provided for the project. This detailed the proposal including project cost and aims, evidence of fit into wider strategic goals, appropriateness for network funding through consumers, how the funding should be treated and timelines for the project. This was accepted and the authority proceeded to trigger the re-opener in May 2024.

Section 2.14. Detailed Assessment Phase of the project outlined considerations in the post-trigger assessment phase as follows:

- The value of the work or project;
- The complexity of the work or project;
- How the work or project aligns with strategic policy aims; and
- Whether or not our funding decision will set a precedent for future projects

There is no suggestion that we have failed to provide relevant information against these criteria. The Draft Determination not to grant funding therefore does not appear to be in line with the stated governance on the assessment phase.

Under Stage 4: Assessment 1.19 in the Re-opener Guidance and Application Requirements Document 1.20, in our application for the reopener we:

- Set out how the project had been developed through a rigorous option assessment process informed by stakeholder engagement;
- Outlined how it aligned with wider policy objectives, including facilitating the transition to net zero and following a whole systems approach to network development and operation; and
- Demonstrated the appropriateness of funding through the GD2 price control, with sufficient evidence to demonstrate efficient implementation cost representing good value for consumers over the long term.

In the section below we have detailed our response to each of the points Ofgem has raised in the Draft Determination, which appear to particularly focus on alignment to strategic policy aims. In addition to these criteria not being clear at the point of application, this further clarification should help demonstrate the alignment of our proposal to strategic policy aims of UK government, Welsh government, Ofgem and our stakeholders.

¹ [Modifying the special conditions of the gas transporter licence: statutory consultation | Ofgem](#)

Detailed Response to Draft Determination

Ofgem Draft Determination	WWU response
<p>3.6 The primary reasons that Hyline Cymru FEED project has not been selected for access to our interim RIIO2 funding process are as follows:</p> <ul style="list-style-type: none"> • Hyline Cymru is unlikely to be amongst the first areas selected for a hydrogen network; • The lack of access to large scale regional and national geological storage in the initial phase due to the lower priority for connection to Project Union is not in line with DESNZ ambitions for the first hydrogen networks; • The project's new build network represents lower gas consumer value as there is no repurposing of existing gas assets • Less demand for hydrogen from Tata Steel is likely to have a significant impact on the projects overall CO2 emission reduction impact; Early hydrogen production and demand is less certain than other projects 	<p>We have detailed within our reopener application:</p> <ul style="list-style-type: none"> • How WWU has undertaken extensive innovation work to explore the potential for geological storage in South Wales, exploring alternative means of storage, commercial arrangements and a link to Project Union. It should be recognised that this hydrogen pipeline proposal will not be unique in its approach: operation without geological storage is technically and commercially feasible given the right environment. • How the project has considered repurposing alongside energy security, resilience, and the ongoing supply of natural gas to customers to reach the most cost-effective and deliverable solution which meets partner timescales. The application also demonstrates value to customers through a Cost Benefit Analysis which follows Ofgem guidance. • How hydrogen demand from Tata Steel will still be substantial following a decision to move to electric-based steel production, alongside a growing number of additional industrial customers who have demonstrated their need for hydrogen to WWU. The engineering justification within our application demonstrates how this demand continues to justify the need for a pipeline.
<p>3.7 DESNZ concluded in its Hydrogen Transport and Storage Networks Pathway document that it was important that early hydrogen network infrastructure is located in regions with suitable geology to develop storage at scale. Geological storage is required for supply reliability.</p>	<p>The Hyline Cymru feasibility study, referenced in our application for the reopener, sets out how the project will manage reliability and resilience in the absence of geological storage.</p> <p>We note that the DESNZ Hydrogen Transport and Storage Networks Pathway document, published in 2023, presents a</p>

	<p>preferred strategic position on how hydrogen T&S infrastructure would develop alongside geological storage.</p> <p>However, this was not a stated criteria for the NZASP application process and is not a reasonable basis for this determination, as demonstrated by the acceptance of WWU's needs case in May 2024. The link to geological storage will not necessarily be part of future requirements for Hydrogen Transport Networks, depending on the development of policy, so should not be considered part of the basis for a determination on a project at this stage.</p>
<p>3.8 The DESNZ ambition is to “support up to two hydrogen storage projects and associated regional pipeline infrastructure to be in operation or construction by 2030”. Hyline Cymru does not have access to large scale regional geological storage.</p>	<p>As presented in WWU's reopener application, WWU has demonstrated how a first phase pipeline connecting industrial sites to hydrogen production in South West Wales is feasible. Subject to timely funding, this could be in construction by 2029 and constructed by 2033, and as such would seek to follow future DESNZ hydrogen transportation policy.</p> <p>To meet regional and national decarbonisation timelines, it remains critical to all projects that suitable funding is available to enable these projects to progress through FEED studies, where operational philosophies alongside hydrogen producers and offtakers will be further developed to provide assurances in the absence of immediate access to geological storage.</p> <p>For HyLine Cymru, this includes a future link to Project Union, which will be explored at WWU's Dyffryn Clydach offtake to allow suitable consideration of import, export, and system balancing. However this is not a requirement for initial operation of the pipeline (see section 3.9).</p> <p>Given the eligibility of projects which are connected to storage under the Hydrogen Transport Business Model (HTBM) Allocation Round 1, WWU expect HyLine Cymru to fall under an expected Allocation Round 2 mechanism.</p>

	<p>WWU understand through the DESNZ Hydrogen Transport and Storage Networks Pathway document and recent engagement with DESNZ that future eligibility criteria will change to be better suited to projects developing across other regions of the UK.</p>
<p>3.9 In its Hyline Cymru application, WWU has considered national storage connections in its supply reliability strategic options (Table 17) : “Connecting to national geological storage would require connection to Project Union. Assuming this project develops into the execution phase South Wales is the lowest priority for connection and would be completed last”.</p>	<p>Within the DESNZ Hydrogen Transport and Storage Networks Pathway document, it is stated that ‘the development of regional networks can be phased to retain the flexibility required to support future network expansion and market growth. This growth in turn can provide greater resilience, market liquidity and security of supply for network users through connections to multiple sources of production and to geological storage, as well as reducing volume risk for production projects connected to multiple off-takers.’</p> <p>WWU recognise that the HyLine Cymru pipeline is the first phase of a wider network in South Wales, and may connect to Project Union at a later date than other projects.</p> <p>To address this, WWU has considered how a standalone Transportation Agreement could set out clear responsibilities for system balancing and facilitate shared risk between producers, transporters, and offtakers in advance of HyLine Cymru connecting to a national network and adding value in respect of market growth and connection to multiple offtakers.</p>
<p>3.10 In its assessment of a core network, the NIC also advised on the importance of storage and advised the prioritising of networks that pass through areas where “it is most feasible to locate storage, particularly those sites that look most promising to develop first”.</p>	<p>The applicability of the National Infrastructure Assessment (NIA) to the NZASP application process was not made clear in advance. The NIA was published in October 2023 and was therefore available at the point that the Needs Case for Hyline Cymru was accepted, so should not now be used as a basis for this determination. The NIC provided advice to UK government and its publications cannot be considered policy documents.</p> <p>While the project is feasible without direct access to geological storage, WWU is</p>

	<p>currently working with the British Geological Society and other private partners, where suitable geological conditions have shown that the development of Lined Rock Cavern (LRC) storage of hydrogen is feasible in South West Wales. Within the HyLine Cymru reopener application, WWU also received direct support from storage developers and technology providers who have interests in South West Wales.</p>
<p>3.11 The NIC went onto say that “The argument for connecting South Wales largely depends on what role hydrogen plays in decarbonising the steel industry which makes up over 90 per cent of emissions in the area. If the steel industry does not require hydrogen, then the case for a hydrogen pipeline to the area is weakened”. Tata Steel announced in 2024 that it will cease primary steel production at the two remaining iron ore fed blast furnaces at its Port Talbot steelworks. The Tata Steel plan for future steel production is to replace the existing blast furnaces with a single Electric Arc Furnace. Although Tata may still require some hydrogen for the abatement of some of the existing natural gas usage, the case for hydrogen for steel at Port Talbot has weakened considerably.</p>	<p>Since the launch of the UKRI-funded South Wales Industrial Cluster (SWIC) Deployment project in 2021, WWU has engaged with Tata Steel along with a growing number of industrial offtakers to understand industrial hydrogen demand across South Wales.</p> <p>Following the completion of the Deployment project in 2024, WWU formed the HyLine User Group (HUG) which provided a means to progress project development and project partner engagement beyond the initial UKRI-funded development work.</p> <p>Prior to WWU’s submission of the reopener in October 2024, WWU engaged with HUG members to validate previous hydrogen demand assumptions and flow assurance activities undertaken through engineering feasibility.</p> <p>This validation exercise demonstrated the strength of hydrogen production and demand activities in the region and the ongoing need to develop the HyLine Cymru pipeline into FEED, including in the scenario where iron ore fed blast furnaces were no longer in operation at Port Talbot.</p>
<p>3.12 For access to interim RIIO-2 funding processes we are selecting projects that are likely to be part of the initial phases of a national core hydrogen network.</p>	<p>As per our response to 3.7, we believe this to be outside of the scope of this reopener.</p> <p>As per our response to 3.9, WWU has considered how HyLine Cymru can be built and operated in advance of a connection to a national core hydrogen network or Project Union.</p>
<p>3.13 Our assessment concluded that Hyline Cymru project’s new build hydrogen pipeline</p>	<p>Within the SWIC Deployment project, WWU undertook a comprehensive review of their</p>

<p>represents lower gas consumer value and our view is that this project is not as strong as other projects in terms of DESNZ strategic priorities, particularly access to large scale geological storage, Net Zero impact and early production and demand.</p>	<p>existing Local Transmission System (LTS) in South West Wales for repurposing suitability.</p> <p>This demonstrated that:</p> <ul style="list-style-type: none"> Existing assets are not of a suitable archetype and could therefore not provide sufficient capacity to transport the required volumes of hydrogen in the region Without new-build natural gas infrastructure, existing assets will need to be retained to serve WWU's existing customers <p>New build hydrogen networks are therefore considered more efficient in this area, as otherwise there would be risks to resilience or requirements for new natural gas infrastructure. Phase 1 of Hyline Cymru, while justified in its own right, also opens up the potential for localised repurposing should new customers engage in the proposal as it develops.</p> <p>WWU believe that ongoing engagement with industrial customers as part of the HUG, along with recent HAR2 announcements and wider energy transition projects in Milford Haven, both support the deliverability of HyLine Cymru as a project which can be constructed in the early 2030s and which is key to industrial decarbonisation in South Wales.</p>
<p>3.14 Whilst WWU's application does meet the requirements to be considered under the NZASP re-opener, for the reasons set out above, we believe it is not in the interests of gas consumers (in conjunction with our statutory duty in the Gas Act 1986) to fund the Hyline Cymru FEED project.</p>	<p>To support the reopener application, WWU undertook a comprehensive Cost Benefit Analysis to support the pipeline business case and engineering justification, submitted as part of the application. This demonstrates, based upon validated demand assumptions, that a hydrogen pipeline could be a cost-effective means to transport hydrogen within the region and prevent excess investment in co-located hydrogen production and industrial offtaker sites.</p> <p>Whilst the CBA is ultimately dependent on the ongoing design of the Hydrogen Transport Business Model (HTBM), WWU nor HUG members can see an alternative route to supporting the decarbonisation</p>

	ambitions of existing industrial gas customers in the region.
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At present and following recent DESNZ engagement, it is WWU's understanding that there is no current funding mechanism available to progress HyLine Cymru and complete FEED activities. This puts project and programme progression at risk and limits the ability and options for industrial sites to decarbonise within the cluster, causing delays which put regional and national decarbonisation and economic growth plans (as set out in the South Wales Industrial Cluster Plan) at risk.

Advancing the Hyline Cymru project through its FEED stage is in the interest of current and future customers, and the economy more widely. We disagree with the Draft Determination on these grounds, in addition to the issues with the process followed which we have identified above. We urge Ofgem to reconsider this decision and would be pleased to discuss this further.

Yours sincerely,



Matthew Hindle

**Head of Net Zero & Sustainability
Wales & West Utilities**