

Reference

RIIO-2 NZASP Re-opener Draft Determinations: East Coast and Hyline Cymru
Hydrogen Network FEED Studies

Date

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Price Control Operations – Small & Medium Sized Projects

By email to allan.rankine@ofgem.gov.uk



Dear Allan,

I am writing in response to Ofgem's RIIO-2 NZASP Re-opener Draft Determinations: East Coast and Hyline Cymru Hydrogen Network FEED Studies, published on the 28th March 2025.

We are very pleased with the positive decision to provide funding for the East Coast Hydrogen Network FEED studies, which will support and enable the development of vital hydrogen projects across the country and assist the government in meeting its net zero goals.

The needs cases for the projects are clear and demonstrable, and we are delighted that Ofgem have recognised this in the minded to position to fund the FEED studies.

Whilst excluded from the draft determination costs, we maintain that funding FEED and Consenting through to end of the potential Judicial Review period following a DCO decision represents the lowest risk and most efficient overall delivery of our East Coast Hydrogen North Phase 1 project programme. It would ensure that the appropriate level of design maturity can be achieved as part of a FEED study which is reliant on Statutory Consultation feedback and would account for any amendments that may be required as part of the DCO examination.

We do recognise the importance of standardised treatment of projects and that Ofgem's minded to position reflects that. However, we would welcome a discussion on practical flexibility mechanisms to avoid demobilisation and remobilisation of projects between different stages which is both costly and damaging. This would support the unbroken efficient continuation of the project should the regulatory drivers change before the scheduled end of the FEED Study; facilitating a more coherent approach.

We have included our responses to the specific questions within the consultation document in the Annex below.

We look forward to further discussions with you to enable these important and strategic projects into Final Determinations and on to successful completion.

Yours sincerely

Stuart Easterbrook
Head of Net Zero Energy Frameworks, Cadent

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Annex – Cadent’s response to Specific Questions

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

We support the development of Hydrogen projects across the country, so would have been pleased to see WWU receive funding for the Hyline project FEED study. We do appreciate the challenges of funding that Ofgem face and the necessity to be selective when deciding which projects gas consumers should fund. However, we note that timely clarity and transparency on the selection criterion would avoid wasted effort on projects that are unlikely to be selected.

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

We believe that the Needs Case under points 4.09 to 4.19 within the consultation is still appropriate and relevant. Cadent has continued to work with hydrogen production developers, off-takers and other key local stakeholders during the determination period and the need for a regional hydrogen network to connect hydrogen production to off-takers remains clear and demonstrable.

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

We broadly agree with the approach to protect consumers values by some standardisation of the approach to funding. For Cadent the main area this relates to, compared to our reopener submission, is the funding of the consenting process from statutory consultation onwards. Ofgem’s minded to position is this will be funded via a future HTBM programme led by DESNZ as described in Section 1.10 of the consultation document.

As described in Section 1.12, we understand Ofgem’s view that there is a risk that some projects may not proceed to completion. However, we believe that our proposal submitted within the reopener to fund FEED and Consenting through to the end of the potential Judicial Review period following a DCO decision, represents the lowest risk and most efficient overall delivery for the project programme. It ensures that the appropriate level of design maturity can be achieved as part of a FEED study as this is reliant on Statutory Consultation feedback and would account for any amendments that may be required as part of the DCO examination.

The introduction of a potential break in the project schedule due to having to move from one funding mechanism to another introduces additional risk of delay and an increased cost of subsequent phases. Impacted by the length of any delay, examples of this could include demobilisation/remobilisation costs, increased risk of future rework/design change and the need to repeat certain FEED activities e.g. some ecology surveys may need to be repeated if there is a lengthy delay between when they are completed and a DCO submission.

We note that in future there may be interim periods caused by misalignment of FEED completion and the timing of funding via a future HTBM programme led by DESNZ in which projects may not have funding. We would like the opportunity to discuss in further detail with both Ofgem and DESNZ how these periods may be funded and whether there may be any opportunity to design in flexibility e.g. ability to revise scopes where an underspend is forecast, or by including DCO funding but make it subject to an additional later stage of Regulatory Direction. We could develop simple hooks in the mechanism that would provide flexibility as the regulation of hydrogen schemes evolve in the coming months and years.

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?

Yes, we are supportive of Ofgem awarding Cadent the proposed value (£25.9m 18/19 prices) to undertake FEED and some consenting work on ECHP - North Phase 1.

We note that the contingency figure has reduced from 15% to 10%. Whilst we understand that standardisation is necessary, as you have noted, a detailed assessment was undertaken by Cadent and our previous experience from HyNet was used to devise the 15% figure. Therefore, it was a robust and fully justified percentage, and we would like to fully understand the rationale for reducing it, rather than increasing others in line with our robust analysis. It does also mean that there is a greater risk there will be insufficient funds within the contingency budget.

We do not support the approach whereby Cadent and NGN funding is recovered from the existing users of the 'host' network. This is contrary to all previous funding mechanisms for similar works, which have recovered the costs nationally. Continuing with wider sharing ensures all gas consumers share the costs and it does not create a regional incentive that discourages being first or early movers. If early innovative and evidence building projects do not have their costs widely socialised, then the benefits and efficiencies realised by later projects arising from the learning from earlier schemes, will have been paid for by a different body of gas customers. This does not seem appropriate or consistent with a duty to protect current and future customers.

Wider socialisation also avoids complication for schemes that straddle more than one gas network territory, particularly if the scheme impacts one area more than another.

It makes sense therefore to keep a simplified approach and continue the national socialisation of such costs until such time as a full GB wide conversion programme and associated long term funding model is in place.

In addition to the 'who pays' point above, we are also concerned about the proposed approach to funding in terms of fast vs slow money. Whilst we understand the value in reducing bill impact, we believe a much stronger principle here is to seek alignment with the financial accounting approach. With no assets being created, there is no asset to capitalise the costs against, therefore these costs will be treated as operating expenditure. Broadly, the GDNs regulatory model with a 'Totex' approach, is intended to keep close to actual cost types at a high level, whilst ensuring there are no undesirable consequences to favour a slow or fast money outcomes when taking business decisions. In this case we see no strong justification to treat this additional cost as anything but 100% fast money, as with previous similar funding arrangements. We also note that this represents a cleaner approach than creating a notional asset in the regulatory asset base, which may cause issues when it comes to the creation of new hydrogen RAB businesses.

Finally, we note the interaction between the two points above, and that the socialisation of all costs nationally would reduce the impact on end consumers and offset the impact on customer bills of pursuing a fast money operating expenditure approach.

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?

We are supportive of the minded to position on the value of funding. We note that at this point the minded to position is not to allow NGN to factor part of their Redcar Village Trial costs as a benefit in kind contribution. This was not the basis of our contribution calculation, however, if the final decision changes to support a contribution in this form, we would like the opportunity to respond to the new policy clarification and to revisit our contribution taking into account our costs for the Whitby Village Trial. This would ensure consistency and a non-

discriminatory approach.

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?

We are broadly supportive of the minded to position but as noted above, we are concerned about the approach to the socialisation of costs. We support consistency, scalability as well as appropriate standardisation. Either all are socialised geographically across the whole gas system, or all are applied to the hosting network. The NGT project may have aspirations to be part of a potential future hydrogen national network, but so could Cadent's projects, and we do see the future for hydrogen not having the historic methane segregation of National Gas being 'National' and GDNs being Regional. It is entirely feasible that a future UK wide hydrogen system will consist of two way flowing interconnected multi-user, multi owner systems.

If Cadent's and NGN's customers are being asked to fund their costs as they are the region that benefits, it seems difficult to argue that the costs for NGT's regional project should be socialised nationally, as this part of the project will only benefit this region in the short to medium term. As noted above, we believe the socialisation of all such costs nationally is the most fair, robust and scalable approach going forwards.

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

Noting our response to Q3 of this consultation document regarding our view of funding of Statutory consultation through to the Judicial Review period following DCO decision, we otherwise agree with the proposed deliverables for Cadent, NGN and NGT.

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

Noting our response to Q3 of this consultation document regarding our view of funding of Statutory consultation through to the Judicial Review period following DCO decision, we otherwise agree with the proposed deliverables for Cadent, NGN and NGT.