

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

30<sup>th</sup> September 2025

**RE: RIIO-2 NZASP Re-opener Draft Determinations: NGT Project Union St. Fergus to Teesside and North West Hydrogen Network FEED Studies**

Dear Allan

We welcome the opportunity to respond to the above consultation on behalf of National Gas Transmission (NGT), and I wish to confirm that this response can be published on Ofgem's website.

Please find below our response to the specific questions raised in the consultation document. We have responded to questions where we can make a valuable contribution.

We would like to thank Ofgem for the opportunity to feedback on this consultation and remain open to further dialogue on any of our comments. For queries in relation to our consultation response please contact [dave.nanda@nationalgas.com](mailto:dave.nanda@nationalgas.com).

Yours sincerely



Tony Nixon  
**Regulation Director**

# **RIIO-2 NZASP Re-opener Draft Determinations: St. Fergus to Teesside and North West**

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# Version control

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# Introduction

## National Gas Transmission

National Gas is the backbone of Britain's energy system today. We are proud of our role in transporting gas to power stations, major industries, storage facilities, more than half a million businesses and around 23 million homes.

We own and operate the high-pressure national gas network (National Transmission System) that transports gas quickly and safely to wherever it's needed in Britain.

National Gas is developing the infrastructure to transport low-carbon hydrogen as a replacement for natural gas. We are building the capability and flexibility required for a clean energy future at the lowest cost to the energy system, while realising value for the UK economy.

## Project Union: St. Fergus to Teesside and North West Net Zero Pre-Construction and Small Projects (NZASP) Re-opener consultation

Project Union is a pioneering project to create a UK hydrogen backbone, largely through the repurposing of the existing methane National Transmission System, transporting 100% hydrogen, while connecting hydrogen production and storage with end users.

In August 2024, we submitted two reopener submissions for Project Union: St. Fergus to Teesside and Project Union: North West. We provided robust evidence for the requirement of additional regulatory funding during the RIIO-2 price control period under the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZASP) Re-opener mechanism to carry out Front End Engineering Design and early consenting activities.

This proposed phase of work will deliver the following outcomes over a 24-month period post appointment of FEED contractors:

- **Project Union: St. Fergus to Teesside and North West FEED** – Will narrow down routing options for the proposed section from preferred options identified during preliminary Front End Engineering Design (pre-FEED), as well as deliver conceptual design, land and consents, and supply chain activities.

We welcome Ofgem's decision to consult on Project Union: St. Fergus to Teesside and North West FEED phase to enable the development of a hydrogen transmission network in line with Government plans.

This response is provided by National Gas Transmission (NGT), and we confirm this consultation response can be published on Ofgem's website.

## Q1. Do you agree with our assessment of the Needs cases for the PU: North West and PU: St. Fergus to Teesside projects?

We agree with Ofgem's assessment of the need cases for PU: North West and PU: St Fergus to Teesside.

- The Second National Infrastructure Assessment published by the National Infrastructure Commission (NIC)<sup>1</sup> states that a hydrogen network in the North West and North East Scotland would support existing industries and encourage new industry into areas which have seen decline. PU: North West and PU: St Fergus to Teesside, will help facilitate a hydrogen network in these regions, providing support for existing and future industry to continue to operate, for hard-to-abate industries unable to electrify, and decarbonise.
- In their Hydrogen Transport and Storage Networks Pathway<sup>2</sup> document, DESNZ agreed with the strategic objectives of a core network, however stated that more suitable routing and timeline for such a network requires further evidence. These Project Union FEED studies, alongside our additional FEED study for PU: East Coast, expect to provide more evidence to support a hydrogen network, aiding DESNZ decision-making and help reach the Governments net zero targets.
- Based on our current evidence, PU: North West and PU: St Fergus to Teesside are both hybrid solutions. This includes the repurposing of existing infrastructure as well as some new build. There are benefits to repurposing including:
  - Value to consumers; repurposing is cheaper to deliver compared to all new infrastructure
  - Where elements of the existing methane network can be repurposed, this will extend the economic life of the relevant asset, avoiding the need for decommissioning costs in the near and long term
  - Significant environmental benefits during the construction phase
  - Repurposing has the potential to be delivered faster than all new infrastructure

As we carry out further analysis during the FEED phase we will continue to review our hybrid solutions<sup>3</sup>.

### Project Union: North West

- The intention for NGT's PU: North West is to provide a transmission level hydrogen pipeline connection to the largest manufacturing sector in the UK and significant industrial zones, including aerospace, automotive, nuclear, pharma, biotech, and chemicals sectors. Hydrogen will play a key role in decarbonising some of these industrial sites by providing a

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<sup>1</sup> [The Second National Infrastructure Assessment](#)

<sup>2</sup> [Hydrogen Transport and Storage Networks Pathway](#)

<sup>3</sup> It should be noted, we have requested funding for both a hybrid and new build FEED study due to the uncertainties around repurposing, as well as broader drivers of change, our response can be found in Q2.

low carbon feedstock for chemical processes and high temperature heat for industry, key for hard-to-abate industries.

- The North West consists of the municipalities of Liverpool and Manchester and Chester Council, which all have pre-2045 net zero target dates. PU: North West will therefore support the necessary hydrogen transmission infrastructure to enable decarbonisation in these areas.
- There is also significant production and storage in this region, hence the routing has been designed to facilitate connecting these key strategic locations. Geographical storage in the Cheshire Basin, one of the most developed natural gas storage caverns, provides the potential to store surplus low carbon hydrogen, with multiple projects looking to utilise these caverns for a hydrogen future. These will ensure security of supply for the region, reducing constraints on the network during peak demand.

#### Project Union: St Fergus to Teesside

- The intention for NGT's PU: St Fergus to Teesside is to provide a transmission level hydrogen pipeline connection from the North East of Scotland to the industrial cluster at Teesside to connect into our East Coast project.
- Scotland has the vast potential for renewable and low carbon hydrogen production, due to the availability of onshore and offshore renewable resources. Due to this, Scotland has the potential to be a key component of the UK's over hydrogen supply and play a significant role in decarbonisation. With hydrogen production indicating to exceed demand in the region, surplus low carbon hydrogen could be transported to demand centres across the UK and Europe, via interconnectors, to unlock whole energy system benefits.
- Through PU: St Fergus to Teesside, this surplus of hydrogen production can also be transported and stored within the regional system in both the North West and East Coast, through their respective projects. With geological hydrogen storage not readily available in Scotland, accessing these storage sites is key to enhancing Project Union's resilience, ensuring security of supply, and reducing network constraints.
- PU: St Fergus to Teesside includes one of the six industrial clusters in the UK, Grangemouth, which features strong industrial carbon emitters. Access to low carbon hydrogen in the cluster would help support difficult to electrify industries, by providing high temperature heat as fuel for industrial processes or as feedstock for refineries and distilleries. Significantly supporting decarbonisation of industrial in Grangemouth and providing the potential for further decarbonisation across the region including Fife.

Our plans have been developed alongside customer and stakeholder feedback. Across the North West and St Fergus to Teesside area, production, storage and demand projects have been identified. PU: North West and PU: St Fergus to Teesside, respectively, will provide a connection to these sites providing energy resilience and support the development of the hydrogen market. Customers and stakeholders have shared the importance of the need for PU: North West and PU: St Fergus to Teesside by providing letters of support and case studies during the development of the NZASP reopeners which have been shared with Ofgem.

## Q2. Do you agree with our proposed approach to protect consumer value by standardising our approach to funding in some areas?

### Contingency level

We do not agree with the standard approach for the contingency level.

A 10% contingency level set for each of the projects is not in line with industry best standard practice. Infrastructure guidance (HM Treasury Green Book, Infrastructure and Project Authority (IPA), ACCE International) all emphasize tailor contingency to project specific risk and maturity, often implying contingency well above 10% for complex or early-stage projects. No other UK regulator imposes a universal project-level cap; instead, they use evidence-based allowances and portfolio risk funds or re-openers to manage uncertainty. Please see further detail regarding industry standards in the attached supplementary document.

Specifically in the Re-opener Guidance and Application Requirements Document<sup>4</sup> it states that a risk register for the specific project, for any allowances requested for project risk is required. A bottom-up approach has been taken which linked individual risk that relate specifically to the project in each geographical region including the likelihood and impact if these risks were to occur to determine the appropriate contingency value. We encourage Ofgem to review the risk register and project on a case-by-case basis to ensure the appropriate contingency is associated with the project.

### The number of FEED studies funded by gas consumers per project

Ofgem's proposal is to fund only one hydrogen network FEED study per project.

In our initial Re-opener submission, we have proposed to carry out a hybrid FEED study and a new build FEED study in parallel as we believe there are benefits to this approach as outlined in our PU: East Coast response.<sup>5</sup> In the instance that Ofgem chooses to fund the hybrid option only, there will need to be an appropriate mechanism to pivot the FEED study to assess the new build option should the outcome mean that repurposing is no longer a viable option. In addition, the opportunity to revisit the deliverable as set out in the direction. This allows the project to continue to deliver against its overarching strategic benefits as set out in the needs case and the ability to continue to meet the eligibility criteria as set out in the HTBM allocation rounds.

As well as the pending decision of repurposing for the St. Fergus to Teesside and North West sections of Project Union, there are also other change drivers which could impact the FEED study, this includes

1. Changes to customer requirements which could impact the scope of the FEED, resulting in a change to project costs and time

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<sup>4</sup> [Re-opener Guidance and Application Requirements Document](#)

<sup>5</sup> [Draft Determinations: East Coast and Hyline Cymru hydrogen network FEED funding applications | Ofgem](#)



2. Changes in the policy landscape which means the aspects of the FEED may need to be re-scope to ensure alignment with strategic direction

We request that these drivers of change are considered as the projects move into FEED delivery and that the appropriate mechanisms are available to address any potential impacts.

## **Additional costs**

We agree with Ofgem's proposal to fund the additional costs related to the St. Fergus to Teesside and North West reopener submission.

## **Land, planning and consent costs**

We agree with Ofgem's proposal to fund Land, Planning and Consenting activities.

## **Regulatory treatment**

Ofgem's Draft Determinations position is that all of the projects will be funded through a slow funded approach which they believe is in the best interest of gas consumers.

We agree with the approach that all of the projects will be funded through a slow funded approach on the basis this is in line with the RII0-2 principles.

## **Private contributions and TIM impact adjustment**

Ofgem is minded-to ensure that the 10% minimum private contributions are recovered in full. They outline the TIM mechanism would return a portion of the 10% company contribution to the company. They are therefore minded to apply a correction to the funding Allowance to account for the TIM impact on the private contributions.

We do not agree with the standard approach to contribution and we disagree with the TIM adjustment. It should be noted that the Totex Incentive Strength has not yet been published for RII0-T3. If the Totex Incentive Strength changes, the allowance for 2026/27 will need to be adjusted accordingly. Since the Totex Incentive Strength will not be confirmed until Final Determinations are published (expected December 2025), this may require an update to the final direction for this re-opener (assuming the final direction will be issued ahead of December 2025).

We outline below our points below as to why we do not agree with private contributions:

In the NZASP reopener guidance<sup>6</sup> it states, *"where a potential NZASP project is substantially innovation related (for example, it could also be eligible for funding under either the Strategic Innovation Fund or Network Innovation Allowance), a contribution should be considered"*.

FEED studies are a standard part of infrastructure project development. Whilst the FEED study is not innovative, we will look at innovative ways to deliver the project.

- Through the Network Innovation Allowance and the Strategic Innovation Fund, NGT contributes 10% towards a number of innovative projects, including project like FutureGrid.

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<sup>6</sup> [Net Zero Pre-construction and Small Projects Re-opener Guidance](#)

- For the delivery of critical net zero projects of a similar scope and size in Electricity Transmission, there is no precedent of network companies being required to provide a contribution, especially under the Accelerated Strategic Transmission Investment (ASTI) framework, which has been introduced for electricity transmission.

### **Q3. Do you agree with our proposal to approve funding for the PU: North West project under the NZASP re-opener mechanism at the proposed value?**

Yes, we agree with Ofgem's minded-to decision to approve funding under the NZASP re-opener mechanism.

We are pleased for the funding to carry out a hybrid FEED study, lands and consenting and additional costs relating directly to delivering PU: North West.

We do not agree with disallowing funding for the new build FEED, reducing project contingency funding and the addition of private contribution with its related TIM adjustment.

### **Q4. Do you agree with our proposal to approve funding for the PU: St. Fergus to Teesside project under the NZASP re-opener mechanism at the proposed value?**

Yes, we agree with Ofgem's minded-to decision to approve funding under the NZASP re-opener mechanism.

We are pleased for the funding to carry out a hybrid FEED study, lands and consenting and additional costs relating directly to delivering PU: St. Fergus to Teesside.

We do not agree with disallowing funding for the new build FEED, reducing project contingency funding and the addition of private contribution with its related TIM adjustment.

### **Q5. Do you agree with our proposed deliverables for PU: North West and PU: St Fergus to Teesside?**

For PU: North West, we agree that the proposed deliverables set out the consultation are deliverable.

For PU: St. Fergus to Teesside, we agree that the proposed deliverables set out the consultation are deliverable, with the exception of deliverable 6 (Land, planning and consents – non statutory

consultation). The anticipated delivery date should be November 2027. We request that this is updated in the final determination.

## **Q6. Do you agree with our draft directions for NGT PU: North West and PU: St Fergus to Teesside?**

We broadly welcome the proposed 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.

For point 6, we do not agree with the proposed 10% contribution and we have articulated our concerns in our responses to previous questions.

For the project deliverables set out in Annex 2, we note an error in deliverable 6 (Land, planning and consents – non statutory consultation). The anticipated delivery date should be November 2027. We request that this is updated in the final determination.