

Consultation name: RIIO-2 NZASP Re-Opener Draft Determinations: NGT Project Union St Fergus to Teesside and North West Hydrogen Network FEED Studies



Issued by: Ofgem

Territorial extent: Great Britain

Response author: SGN

Deadline for responding: 30th September 2025

SGN

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Allan Rankine

Price Control Operations – Small & Medium Sized Projects

Ofgem

30th September 2025

Response via Email to: allan.rankine@ofgem.gov.uk

Dear Allan,

RIIO-2 NZASP Re-Opener Draft Determinations:

NGT Project Union St Fergus to Teesside and North West Hydrogen Network FEED Studies

SGN manages the network which distributes natural and green gas to 5.9 million homes and more than 188,000 industrial and commercial (I&C) customers across Scotland and the south of England, providing warmth to over 14 million customers. Our 4,600 colleagues keep gas flowing safely and reliably to our customers, 24 hours a day, seven days a week.

Thank you for the opportunity to respond to the above consultation¹. In the appendix to this letter we have provided detailed responses to the specific questions raised in the consultation. We also provide the following observations:

We welcome Ofgem's consultation and consider that it makes reasoned and proportionate recommendations, particularly in relation to the use of RIIO-2 as an interim mechanism until the Hydrogen Transport Business Model (HTBM) is operational. This is a pragmatic approach that maintains momentum in hydrogen network development and the continued stimulation of a hydrogen economy.

In particular, we are supportive of Ofgem's recognition that FEED studies are necessary to understand the costs, risks, and opportunities to progress hydrogen infrastructure deployment. These studies will help ensure that hydrogen networks can be delivered efficiently and at scale in future to support the most cost-effective pathway to Net Zero.

At SGN, we see clear value in coordination between National Gas Transmission and GDNs to ensure whole-system planning, particularly where regional industrial clusters and hydrogen demand centres are involved.

We also strongly support hydrogen infrastructure development in **Scotland**, which has a critical role to play in the future hydrogen economy. Scotland's renewable generation capacity, industrial clusters, and geographic positioning make it a key enabler for both regional decarbonisation and export opportunities. It is important that this role is fully recognised and supported within FEED study work to enable wider hydrogen infrastructure planning. Opportunities to further develop distribution level hydrogen infrastructure would be welcomed to link large scale hydrogen transmission infrastructure to end-customers.

¹ [RIIO-2 NZASP Re-opener Draft Determinations: NGT Project Union St. Fergus to Teesside and North West Hydrogen Network FEED Studies](#)

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We would welcome any further clarity on how FEED study outcomes and other development avenues will transition into the HTBM framework once established, to provide continuity and confidence for all stakeholders developing hydrogen transmission and distribution networks.

Should you have any questions regarding our response, or wish to discuss further, please do not hesitate to contact me at Marcus.Hunt@SGN.co.uk

Kind regards,

Marcus Hunt

Business Development Director

SGN

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Appendix – SGN Responses to Consultation Questions

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

SGN agree with Ofgem’s assessment of the Needs cases for both the PU: St. Fergus to Teesside projects and PU: North West. We recognise that hydrogen transport infrastructure will be critical in enabling the decarbonisation of energy-intensive industries, supporting power generation, and unlocking the potential for large-scale hydrogen storage.

For the **St. Fergus to Teesside project**, we particularly note the strategic importance for the development of large-scale hydrogen transmission infrastructure to enable GW scale hydrogen production in the North of Scotland to demand centres in the North of England to support the decarbonisation of hard to abate industries. Unlocking the hydrogen production potential through Scotland’s extensive renewable resource capacity can help to enable the most efficient, cost-effective and secure future energy system. SGN supports the targeting of decarbonisation efforts of heavy industry, power generation and other hard-to-abate sectors to stimulate the creation of a hydrogen economy. Furthermore, NGT’s hybrid approach to development for the St Fergus to Grangemouth section of the pipeline enables the re-purposing of pipeline infrastructure to support the most cost-effective solution for build out. This work builds upon SGN’s recent work completed on the LTS Futures project to demonstrate the feasibility of repurposing natural gas assets to hydrogen.

At SGN, we are currently developing a regional distribution level cluster project ‘FutureFortH₂’. This project focuses on the Central Belt of Scotland, developing necessary hydrogen infrastructure to connect planned hydrogen production to known industrial & commercial demand centres across the Central Belt of Scotland. This development leverages upon the NZARD UIOLI funded H2 Caledonia technical Pre-FEED work, current production plans and a large-scale stakeholder engagement exercise conducted with hard-to-abate users. We recognise the importance of a hydrogen backbone to provide resilience for our regional cluster network, a connection to long term hydrogen storage (which is currently limited in Scotland) and to enable export of excess production planned in the region.

Analysis of the figures provided by NGT in their reopener demonstrate the need for the development of large-scale hydrogen transmission infrastructure across the region. These figures are drawn from reports conducted in 2022 and require refinement delivered during the FEED study to determine the most up-to-date state of play.

Additionally, whilst SGN’s license conditions means we do not operate in the North West region and therefore have limited direct involvement in comparison to the St Fergus to Teesside project, we fully recognise the importance of this project to the UK’s wider hydrogen economy. Hydrogen transportation infrastructure in the North West will help to unlock demand from major industrial clusters and provide critical learning for other regions.

The FEED studies should provide the essential evidence that is required by DEZNEZ/ OFGEM to progress the project through the HTBM.

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

We agree with Ofgem’s proposal to standardise the funding approach, as it promotes fairness, consistency across projects, and delivers value for consumers. However, we recognise that the 2.5% allowance for First-of-a-Kind (FOAK) risks is low. This limited provision may restrict flexibility and innovation and could create challenges in managing the additional complexity these projects are likely to face.

From our experience delivering FOAK hydrogen projects, we recognise the complexities and unforeseen issues that inevitably emerge as projects develop. We have encountered significant challenges, including the need for multiple redesigns in response to evolving technical standards and testing requirements.

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We also agree with Ofgem's proposed funding approach via the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener term (NZPt), as it ensures costs are socialised across consumers while maintaining appropriate risk-sharing and safeguarding the minimum 10% company contribution.

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?

SGN welcomes Ofgem's proposal to approve funding for the PU: North West project under the NZASP re-opener mechanism. While this project does not sit within SGN's network footprint and have limited knowledge of the production capacity and existing energy infrastructure, we recognise the critical importance of a whole-system approach to hydrogen infrastructure planning and delivery. The value of coordinated investment in regions across the country cannot be overstated, as early progress in one area will accelerate the development of the wider hydrogen economy and create benefits that extend nationally.

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?

SGN agree with Ofgem's proposal to approve funding for the PU: St. Fergus to Teesside project at the proposed value. The project is strategically important in enabling large-scale hydrogen transport from the large production potential in Scotland to demand centres in the North of England, supporting the decarbonisation of heavy industry, power generation, and other hard-to-abate sectors.

We recognise the importance of applying proportionate funding that protects consumer interests, and the reduced allowance compared to the original request demonstrates that Ofgem has undertaken appropriate scrutiny of costs. At the same time, the level of funding proposed will enable the FEED study to proceed at pace, ensuring early progress on a corridor that will be critical to the development of the UK hydrogen economy.

From a gas distribution network perspective, the St. Fergus to Teesside corridor provides opportunities for system-wide benefits, including connectivity between industrial clusters, hydrogen storage options, and future integration with distribution networks. This project will play a central role in ensuring that Scotland's significant renewable generation potential and hydrogen production capacity can be harnessed and connected to wider UK demand.

We agree with that there is a need to retain some flexibility in the design should the CCUS cluster be developed and support the NGT's proposal for an adjusted hybrid option and the accompanying increase in costs.

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

We support Ofgem's proposed deliverables for both the PU: North West and PU: St Fergus to Teesside projects. Establishing clear deliverables at this stage is essential to ensuring that consumer funding is directed towards activities that provide demonstrable value, enable robust cost-benefit assessment, and reduce uncertainty around future investment decisions.

We particularly welcome Ofgem's focus on:

- **Robust technical and commercial outputs** that provide a consistent evidence base for subsequent regulatory and policy decisions.
- **Whole-system coordination across regions**, recognising that hydrogen transmission infrastructure must be planned in alignment with production, storage, distribution, and demand.
- **Transparency and knowledge transfer**, ensuring outputs are shared across all network licensees to support efficient sector-wide planning and minimise duplication.

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We view these projects as an integral part of the wider hydrogen ecosystem. SGN's planned hydrogen distribution project 'FutureFortH₂' will contribute directly to these deliverables by supporting the FEED in the delivery of the supply and demand report. We are working collaboratively with NGT to identify opportunities for joint development using a transmission–distribution (regional cluster) approach, ensuring that hydrogen delivered via the transmission system reaches end-users efficiently. This collaboration will also inform the ongoing development of 'FutureFortH₂' and provide alignment for our future participation in the Hydrogen Transport Business Model (HTBM) mechanism as it evolves.

From a regulatory standpoint, it is important that outputs from the FEED studies are not considered in isolation, but actively shared and integrated with complementary work across the country, including within our network. This approach will allow for a more complete assessment of hydrogen production and demand potential, improve comparability between regional pathways, and enable Ofgem and industry to make informed, coordinated decisions in the long-term interests of consumers.

On this basis, we agree with Ofgem's proposed deliverables for the PU: North West and PU: St Fergus to Teesside projects and stands ready to engage with their outputs to help ensure that they inform the wider hydrogen regulatory framework and investment pathway.

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

SGN supports Ofgem's draft directions for these projects. The directions provide clarity, ensure accountability for delivery, and safeguard consumer value by linking funding to defined outputs.

While one of these projects is outside SGN's network area, their findings will be critical to the development of a coordinated hydrogen transmission system. It is important that outputs are shared across industry to support whole-system planning and build a complete picture of production and demand.

On this basis, SGN agrees with the draft directions.