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North West and St Fergus to Teesside hydrogen Front End Engineering Design (FEED) reopener

Dear Allan,

Thank you for the opportunity to comment on this consultation. As Europe's largest renewable generator and one of the largest route-to-market providers, Statkraft is committed to helping the UK achieve its ambitions for clean power and net zero. We share the Government's belief Low Carbon hydrogen is essential to achieve the goal of making the UK a Clean Energy Superpower and accelerating growth.

Our response draws on the experience of our Hydrogen Development team, who are developing a portfolio of 1.5GW, with two projects shortlisted in HAR 2. As the response sets out in more detail, we strongly support the Project Union as it is critical to the shaping of the hydrogen economy in the UK, facilitating more and larger scale hydrogen production projects online and providing accessibility and security of supply of hydrogen to end users.

Yours sincerely,

Alex Savides, Statkraft UK

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

Statkraft agrees with Ofgem's assessment of the Needs cases for both the PU: Northwest and St. Fergus to Teesside projects. We see that both projects as critical to the shaping of the hydrogen economy in the UK, facilitating more and larger scale hydrogen production projects online and providing accessibility and security of supply of hydrogen to end users. We therefore also agree that both projects should be considered to be Net Zero facilitation projects.

Resilience: Both projects will provide resilience for hydrogen producers and offtakers, if either becomes insolvent, or is technically unavailable, a new offtaker or new supplier can be found via the network. This will derisk hydrogen production projects, allowing producers to reduce their WACC, and ultimately their strike price in the Hydrogen Production Business Model, reducing subsidy requirements.

Balancing: As the two projects will also connect hydrogen producers and offtakers to hydrogen storage, electrolyzers will be able to more easily optimise dispatch to times of low power price, without consideration to offtaker's demand profile requirements. This should feed through to lower hydrogen production costs, lower HAR strike prices and lower subsidy costs.

Decoupling supply and demand: due to the lack of transportation and storage infrastructure, today, most projects are brought forward bi-laterally, with the production project co-located and reliant on a sole or anchor offtaker. These legs of project union will allow hydrogen production projects to be realised where the primary offtake route to market is export via Project Union. Decoupling offtakers and producers in this way will negate the need for joint FiDs, and project timelines, reducing investment complexity.

Location and power system benefits: Both projects will enable the transfer of hydrogen from the North of Scotland to both the West and East of England, facilitating the connection of hydrogen to the industrial clusters, and to the significant hydrogen storage capabilities in each of these regions. Locating hydrogen production in Scotland compared to England, has large power system benefits. Statkraft commissioned a 3rd party to quantify the effect, finding that shifting just 1.5GWe of electrolytic production to Scotland, would have a wider system NPV benefit in the region of £4.3bn¹, reduces constraints, reduces the average grid GHG intensity and reduces reliance on interconnector imports. Enabling the much larger hydrogen production volumes in Scotland mentioned in the consultation, would provide a much larger benefit, and help facilitate a swifter roll out of renewable generation, with lower electricity transmission infrastructure build requirements.

We agree that FEED studies for both of these projects are essential to allow DESNZ to make a decision on further funding for the construction of Project Union via the Hydrogen Transport Business Model.

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

No response to this question.

¹ This detailed report has been shared with DESNZ.

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?

Statkraft agrees with the proposal to approve funding for the PU: Northwest project under the NZASP re-opener mechanism at the proposed value. We agree with the reduction in approved funding value vs requested value where the hybrid study only has been approved, since it has been expressed by NGT that a new pipeline is unlikely to be required and this will also allow for a shorter timeline in realising the project. It is Statkraft's understanding that this is also consistent with the approved funding for the PU: East Coast project.

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?

Statkraft agrees with the proposal to approve funding for the PU: St. Fergus to Teesside project under the NZASP re-opener mechanism at the proposed value. We agree with the reduction in approved funding value vs requested value where the hybrid study only has been approved, since it has been expressed by NGT that a new pipeline is unlikely to be required and this will also allow for a shorter timeline in realising the project. It is Statkraft's understanding that this is also consistent with the approved funding for the PU: East Coast project.

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

No response to this question.

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

No response to this question.