

RIIO2 Sector Specific Consultation Decarbonised Gas Alliance response

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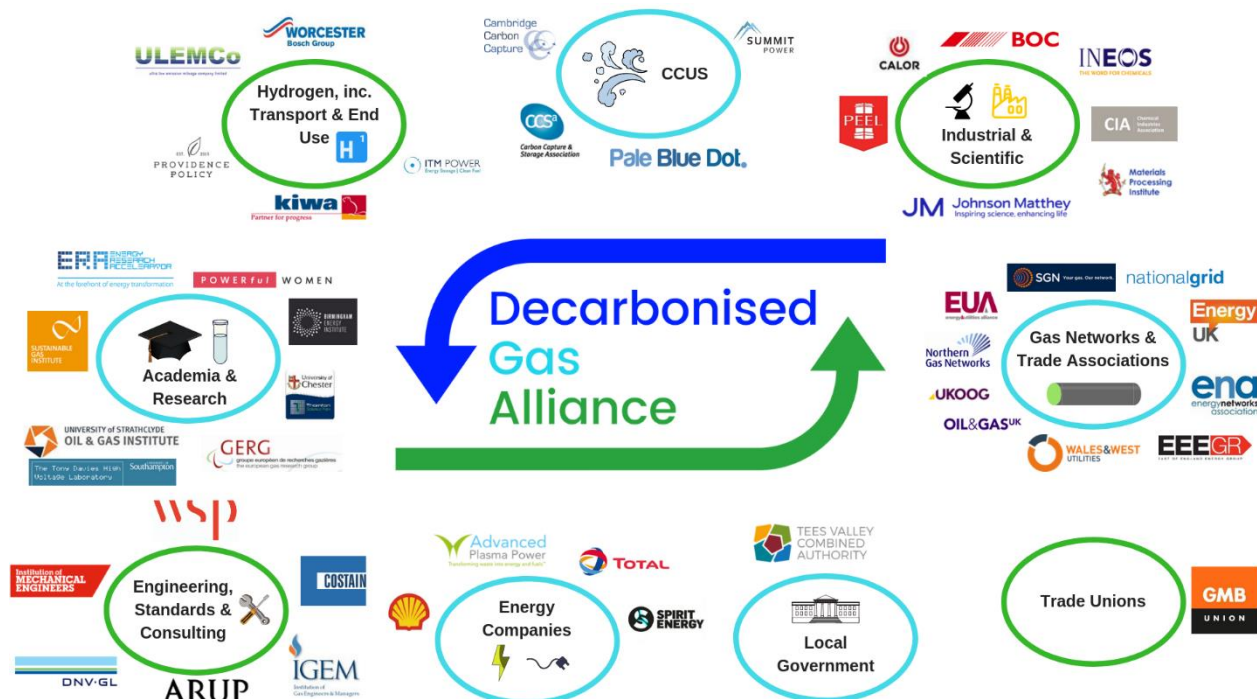
About the Decarbonised Gas Alliance

The Decarbonised Gas Alliance (DGA) is an alliance of gas producers, transporters, suppliers and users, hydrogen and carbon capture experts, alongside R&D, supply chain, trade union and local government specialists whose knowledge and expertise will be vital in decarbonising the UK's gas system and improving poor air quality.

Our aim is to work with all levels of government and with other expert organisations to use the gas system as a whole to help deliver our emission reduction and air quality goals. We believe that decarbonising gas – including biogases and hydrogen from a variety of low carbon methods – would make best use of our existing infrastructure and lower the overall costs of decarbonisation.

The DGA is a broad-based alliance, established in late 2016, and has now expanded to 46 signatory organisations, which are listed in full in the diagram below. The DGA secretariat is managed by DNV GL, a global specialist firm which provides advisory, certification and other technical assurance solutions covering a range of energy sources.

We welcome the opportunity to provide our views on the RIIO2 Sector Specific Consultation, and we are happy to provide further detail, if this would be useful to Ofgem.



General comments

DGA signatories have a strong interest in the development of a robust price control for the gas networks, which balances the need to protect consumers with the role of the network companies in delivering innovation and investment to support decarbonisation. As you know, DGA also responded to Ofgem's Open Letter and Framework Consultation on RIIO2.

In particular, we support:

- Expanded dedicated support for network innovation, including for lower TRL projects given their role in developing research and development to understand future options.
- Investment in gas network infrastructure which can support decarbonised gasses, such as through the continuation of the Iron Mains Risk Reduction Programme.
- Consideration for other network investment to support decarbonisation.

In the government's 'Clean Growth – Transforming Heating' publication, BEIS set out their plans to develop policy around heat decarbonisation, including major strategic decisions in the mid 2020s. To support this ambition, it is vital that all parts of the energy sector build evidence and retain options for meeting the challenge of heat decarbonisation. The RIIO-2 price controls for Gas Distribution and Transmission must allow the networks to play their full role in this innovation and investment.

Responses to specific questions

CSQ44. Do you agree with our proposals to encourage more innovation as BAU?

We support the principle of delivering innovative approaches as BAU through the TOTEX model in principle. However, this needs to be carefully balanced against the additional risks that innovation carries, especially given the uncertainties that Ofgem has recognised in areas such as heat decarbonisation policy. It is therefore important that this approach is well targeted alongside dedicated innovation funding.

Following the successes around gas network innovation in RIIO-1, Ofgem also need to consider how the networks can bridge the gap between innovation projects and BAU. For example, networks, Government, the regulator and the wider industry will need to work together to support the roll-out of increasing volumes of biomethane, hybrid heating systems, hydrogen blending and dedicated hydrogen networks. Proposals to encourage innovation as part of BAU could usefully focus on this area, especially given the proposed removal of the IRM.

CSQ46. Do you agree with our proposals to introduce a new network innovation funding pot, in place of the Network Innovation Competition, that will have a sharper focus on strategic energy system transition challenges? and

CSQ47. Do you have any views on our proposals for raising innovation funds?

DGA agrees with the need to focus on strategic challenges around gas network innovation, noting our comments below on the links between NIA and NIC projects in RIIO-1. We support the proposals on raising innovation funds from use of system charges – but note that there is a need to increase the level and ambition of innovation funding given the importance of the strategic challenges that Ofgem sets out. Given the efforts required for heat, transport and industrial decarbonisation, Ofgem should consider increasing funding of gas network innovation to similar levels to that provided to the electricity networks.

**CSQ48. Do you think there is a continued need for the NIA within RIIO-2? and
CSQ49. If we were to retain the NIA, what measures could be introduced to better track the benefits delivered?**

Yes. DGA notes that NIA projects have helped support network innovation to meet strategic challenges including decarbonisation, for example in research which has contributed to H21. Strategic challenges require high risk, early stage research and development which is unlikely to be funded under BAU/TOTEX.

Given the nature of these projects, benefits measurement is inherently difficult. Ofgem could consider assessment based on the overall package of projects which the networks take forward, rather than necessarily attempting to measure individual project benefits.