

Mr Steven McMahon
Deputy Director, Electricity Distribution
and Cross Sector Policy
Ofgem
Commonwealth House
32 Albion Street
Glasgow
G1 1LH

23 November 2020

Dear Steve,

**Consultation on amendments to Gas Network Innovation Competition (NIC)
Governance Document version 3.0**

We are responding to this consultation on behalf of ENA's gas network members. In order to ensure critical hydrogen projects are given the opportunity to reach demonstration and deliver significant network customer benefits, we strongly support the proposal for the Formula Year 2020/2021 permitted annual cap to be raised to £28m. We understand that this would allow sufficient funds to be available for both SGN's H100 Fife submission and National Grid's HyNTS FutureGrid submission, should both qualify for award under the Full Submission process in line with the requirements and criteria of Ofgem's Gas NIC Governance.

To reach the government's Net Zero target and interim carbon budgets, rapid progress is required to decarbonise the energy system. Evidence from projects such as these NIC submissions will support government policy decisions in crucial areas such as heat decarbonisation, so it is right that qualifying projects should be funded to reach demonstration. Delivery of these projects will also support a green recovery from the Covid-19 pandemic, which has put strain on the UK's economy and brought uncertainty to many sectors.

The purpose of the NIC is to award funding to innovation projects that deliver learning for the other networks in the form of environmental benefit, cost reduction and maintaining security of supply. We believe that both H100 Fife and HyNTS present business cases that satisfy these objectives and will be instrumental in informing the transition to a low carbon economy for the gas networks and the wider energy system.

As you know, H100 Fife is a £27.8m project that is led by SGN in partnership with Cadent, Northern Gas Networks and Wales & West Utilities. H100 Fife is requesting £18.1m from Ofgem's NIC fund for 2020. In order to deliver a project of this magnitude proportional to its cost, SGN have explored all avenues for securing external funding to support the project's delivery. Accordingly, SGN has successfully secured external

funding in the form of a £6.9m grant from Scottish Government, which is subject to success at NIC. In addition, SGN has contributed £500k to the total project cost in addition to their share of the Network Licensee contribution to NIC. Finally, the proposed partnerships with the boiler manufacturers will also produce contributions in the form of undertaking the interior design of the demonstration zones of the Hydrogen Demonstration Facility, the cost of which is born by the manufacturers.

HyNTS FutureGrid is a £12.7m project that is led by National Grid in partnership with Northern Gas Networks, requesting £9.07m from Ofgem's NIC fund for 2020. FutureGrid is an ambitious programme to build a hydrogen test facility from decommissioned assets at DNV GL Spadeadam to demonstrate the National Transmission System (NTS) can transport hydrogen. National Grid has successfully secured additional contributions to the project including access to the full suite of hydrogen research by partner Fluxys (the Belgian Transmission System Owner) valued at a minimum of £1.8m, alongside in kind contribution from partners DNV GL and Durham University of £0.5m and an additional contribution of £300k by National Grid on top of their share of the Network Licensee contribution to NIC.

In conclusion, we believe there is clear value for consumers in increasing the 2020/21 NIC annual cap. This will remove the risk that the current cap acts as an artificial barrier, which could be the only constraint to delivering both projects submitted. As the gas networks we are committed to continuing our collaboration to help lead the UK to its net zero emissions target, by delivering the world's first zero carbon gas grid. Given the role that decarbonised gas and electricity both need to play in delivering net zero, we feel it is warranted that comparable funding is allocated to both the electricity and gas networks to demonstrate innovation. Increasing the 2020 Gas NIC annual cap would be well justified in delivering our shared goals.

Yours sincerely,



David Smith
CEO