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16 March 2021

**Consultation on Ofgem's Net Zero and Re-opener development Use It or Lose It Allowance (UIOLIA) governance document (NZARD) and the Net Zero Pre-Construction and Small Net Zero Projects Re-opener (NZAP) governance document**

Thank you for the opportunity to respond to these consultations. This letter outlines Northern Gas Network's (NGN) response to both the NZARD UIOLIA and the NZAP governance documents.

NGN, in collaboration with the other network companies and the Energy Networks Association (ENA) has been actively involved in the development of the Net Zero Mechanisms that have been included within Ofgem's RIIO-2 Final Determination and welcomes the opportunity to provide feedback on the Governance Documents to support this.

We support the framework that Ofgem outlined in its Final Determination to support net zero activity and planning in RIIO-2. As outlined in our business plan, we acknowledge the uncertainty surrounding the future of the gas networks and the role gas may play in delivering the UK net zero objectives. Despite this, there are certain areas where we can invest on a low or no regrets basis that will provide clarity and support for the enduring role of gas in achieving net zero. We consider the framework proposed by Ofgem will help to achieve this where there is certainty of outcomes alongside clear evidence of the need and benefit for consumers.

It is important that in delivering against net zero objectives in RIIO2, a framework is implemented that is flexible and agile in response and delivery so that networks can rise to the often unpredictable challenges and uncertainty associated with net zero planning, ensuring that funding is directed to the highest value areas for the benefit of consumers. Consequently, the governance framework must strike a good balance between regulatory rigour and sufficient flexibility to allow the process to evolve throughout the price control period and deliver the change needed. NGN considers that the governance documents as presented strikes this balance. However, there are a number of amendments we would offer for Ofgem's consideration to improve the clarity and strengthen these governance documents, which we outline further below.

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the network**

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**Ofgem's Net Zero and Re-opener development Use It or Lose It Allowance (UIOLIA) governance document (NZARD)**

- *2.3 - The NZARD allowance may be used to fund low regret capital projects....*

The wording of this paragraph implies that the allowance relates only to capital projects, which is at odds with discussions that have been held with Ofgem regarding other net zero facilitation projects that may not be classed as capital expenditure. These could include, Local Area Energy Plans or progressing key changes to network and licence codes. Whilst we understand that it could also be implied that these “non-capital” projects fall under “early development work” outlined from paragraph 2.7, we suggest providing clarity in this paragraph that small net zero facilitation projects are not limited to capital projects.

Further, we consider that the approach and definition of Small Net Zero Facilitation Projects strand could be clearer and it would be beneficial for the governance document to define the likely types of work that would be accepted as being low regrets, low policy risk, with a certainty of outcomes that provide clear evidence of a need and benefit for customers. If the intention is for the governance document to be non-binding and for these discussions to be resolved through the engagement process and pipeline of projects, this should be explicitly stated for the avoidance of doubt.

- *2.7 – Early Development Work.*

It is currently not clear, within paragraph 2.7, whether the NZARD can be used to support and develop Local Area Energy Plans (LAEPs). We consider that the development of a LAEP will often precede and be broader than individual capital projects and cannot be considered as project Front End Engineering Design (FEED) under ‘early development work’. However, a LAEP is important context necessary for project specific FEED to take place. Projects that can clearly demonstrate their alignment to a locally set and supported Energy Plan represents best practise both in terms of community consent, leadership, and engagement as well as a whole systems approach to planning. It would also help to ensure a shared and collaborative approach to decision making to deliver what the local community/economy needs to transition to Net Zero.

There is consensus that ownership and accountability of these plans should rest with local/sub-regional government. Alongside this, there is also consensus that the sector does not have the resources and often expertise, to do it alone and there is clear expectation that infrastructure providers will contribute to their development. Ofgem itself has identified the importance of these plans, identified a role for networks in supporting them and even developed a methodology document for their delivery.

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We propose that the governance document is updated to directly reference LAEPs as an important element of any early development work that could be progressed through the NZARD UIOLIA.

**Net Zero Pre-Construction and Small Net Zero Projects Re-opener (NZAP) governance document**

- There is little information in the governance document regarding wider collaboration either between networks or with private companies and how this might be treated through the process. We consider that there is a clear benefit to focussing net zero expenditure beyond just the networks and ensuring that projects consider the end to end supply chain. This should be reflected and supported through the governance approach. For example, there is great interest in the North East and North West of the UK and in Scotland for collaborative Hydrogen Cluster projects. Clearly the networks are just one aspect of the collaborative work that needs to be progressed to develop these clusters. We consider it important that the NZARD and NZAP support the network infrastructure elements of these cluster projects, however, stronger proposals would demonstrate a collaborative approach and ownership by the various elements of the supply chain, including government.
- The governance document could benefit from a worked example showing how the various net zero mechanisms fit together, and consequently how they demonstrate an enduring framework for the gas transmission and distribution sector. To this end, it would also benefit from incorporating the role of Ofgem's Net Zero Advisory Group (NZAG) in the governance process. We accept that for the NZARD and NZAP working level governance will be predominately with Ofgem and BEIS, however, as the projects are being progressed on the basis that they could significantly influence policy decisions related to a net zero future at both a local and national level, a touch point with the NZAG could prove beneficial to the ongoing approach to energy network role in delivering net zero objectives.

We look forward to working with Ofgem, Energy Networks and stakeholders in delivering the Net Zero framework in RII02. Please contact me by email [gdodd@northerngas.co.uk](mailto:gdodd@northerngas.co.uk) should you have any queries about this response.

Yours sincerely



Greg Dodd  
Head of Strategic Planning

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