Sustainability *first*

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To: RIIOElectricityTransmission@ofgem.gov.uk

NGT's Methane emissions reduction and monitoring projects: Net Zero Pre-Construction Work and Small Projects Re-opener (NZASP)

Sustainability First is a charity and think-tank focussed on the energy and water sectors. We have had significant involvement in the RIIO price control process as members of Ofgem's CCG and also with individuals chairing or being members of CEGs / user groups. In our response to the RIIO GD2 consultations we argued for a stronger focus on methane leakage reduction, noting that as a Scope 1 emission, leakage accounts for over 90% of the gas networks' carbon footprint. We were disappointed that ultimately Ofgem's incentives around leakage were actually weaker for GD2 than GD1.

We have since highlighted the comments by the IPCC about the importance of methane reduction as one of the few ways to reduce the stock of greenhouse gas emissions in the atmosphere given the shorter life of methane in the atmosphere compared to CO2. This therefore offers the potential to avoid dangerous tipping points and was one of the reasons for the Methane Pledge that many countries (including the UK) signed at COP26. The latest net zero pathway from the IEA reiterates this stating: *"Cutting methane emissions from the energy sector by 75% by 2030 is one of the least cost opportunities to limit global warming in the near term",* noting that much of the cost would be offset by net cost savings through the sale of captured methane.

We are therefore very pleased to see the proposals that NGT has brought forward and Ofgem's supportive approach. We do, of course, recognise that any costs incurred must be efficient and consider that Ofgem has taken a balanced approach. **In summary we support Ofgem's proposed approach on each of the proposals put forward by NGT**.

However, as Ofgem looks to finalise its decision we would make a few important points:

Timeliness: We were struck that it is now a year since NGT put in its NZAP application. One of the key comments around RIIO2 and Ofgem's move to adaptive regulation was the need for it be able to deal with the uncertainty mechanisms in an agile and timely way. We therefore urge Ofgem to expedite its final decision to enable NGT to deliver the benefits as soon as possible. Even as things stand, we see it being hard for the proposals to be implemented and the lessons learned for GT3 (as is assumed for some of the projects);

Valuing methane emissions: We were pleased to see that Ofgem is now using the most recent cost of carbon given this was a significant concern we had at ED2. However, we note that Ofgem continues to use the 100-year GWP for converting methane emissions into CO2e. As we set out in detail in our response on the ET/GT/GD2 AER Guidance (and in particular Annex 1 of that response) there are strong arguments for using more recent IPCC figures and also crucially for looking at the 20-year GWP in the context of what are near term climate goals. The most recent GWP20 for methane is 84 compared to the GWP figure of 25 that Ofgem uses. This suggests the carbon savings are being

significantly under-valued. As a minimum we would urge Ofgem to carry out its CBA using both the 20 year and 100 year GWP (in the same way as the CBA is tested with alternative costs of carbon).

The cost of additional repairs: We understand where Ofgem are coming from in saying that they will not fund the cost of additional repairs / monitoring as a result of NGT finding more leaks. However, we are concerned that this creates a disincentive on gas networks to improve leak detection. Ofgem's willingness to re-consider this position when more evidence is available is therefore important. In particular we would have thought Ofgem would be wanting to understand whether this is actually about finding more leaks or about findings leaks earlier and, in the latter case, whether that actually allows for more cost-effective repair. Finding and fixing leaks earlier would reduce overall emissions and presumably also has safety benefits. Sending a clear message that improved detection is something Ofgem wants to see will be important for GD3.

Wider learning: We were struck by the fact that, according to Ofgem's consultation, methane emissions from the gas distribution networks are 20 times higher than from transmission. While the nature of the challenges is very different (with repex a big driver on distribution and with more smaller compressor stations etc) we would like to see more effort to share learning across the sectors. Ofgem should press NGT and the GDNs on any learning that could be taken across. Clearly if there is learning that could be carried into the other networks that would further strengthen the case for this investment. More importantly Ofgem should draw the lessons from these proposals in setting much more ambitious targets for methane reduction in GD3.

Yours sincerely

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