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To: riio3@ofgem.gov.uk 20 August 2025

Ofgem Draft Determinations for RIIO-3 – Consultation Response
Gas Distribution / Gas Transmission

Dear Ofgem

Sustainability First is a charity and think tank focused on social and environmental issues in the energy and water sectors with a record of engagement on policy and regulatory issues, including as past members of Ofgem's RIIO-2 Challenge Group.

Recent work by Sustainability First on the future of the GB gas distribution networks includes our 2023 paper "Looking Through the FOG - the Future of Gas Networks", our response to Ofgem on the Call for Evidence on the GD3 Business Plans (our "Response"), our submission to Ofgem on gas network disconnections and a day-long Sustainability First roundtable held on 1 May 2025. Sustainability First remains committed to a continuing role in taking forward this conversation.

As part of our response to Draft Determinations, we have prepared the attached Commentary which looks at the consumer and environment issues for gas distribution, in particular those relating to our work on the Future of Gas. In the Annex we also respond to specific questions raised by Ofgem, including some on gas transmission.

We support Ofgem's continuing pressure on cost efficiency, given the current affordability challenge. Against the uncertain outlook for gas distribution, we support Ofgem's use of uncertainty mechanisms. We agree with Ofgem's modest move to accelerate depreciation for new gas distribution assets with the aim of obtaining a fair balance for future consumers. We see the overall increase in estimated network charges for GD3 as reasonable, including the impact of accelerated depreciation. We welcome the increased VCMA allowances to help support consumers in vulnerable situations.

However, we see some important gaps for Ofgem to address for Final Determinations. The overall positioning of the GD3 price control needs to be more future-facing with a clearer over-arching narrative. In particular:

We are concerned that. in painting GD3 largely as 'business-as-usual', Ofgem risks selling the future short. For Final Determinations, **Ofgem must ensure that the GD3 price control is based on a strategic narrative which is far more future-facing**. The gas distribution networks must be actively supported by Ofgem in GD3 to start to prepare for the many complex demands implied by the net zero transition, including around heat decarbonisation. A clear articulation is needed of the priority areas for **innovation** and how these are being addressed.

Essential to this more future-facing narrative for GD3 should be an explicit focus on **the imperative to reduce methane emissions**. This is an element of the regulatory framework that has been unwound over successive price controls at a time when the international community is prioritising action in this area. While there are synergies with the safety driven repex work, it is vital for the environmental benefits of methane reduction in gas distribution to be explicitly considered and valued.

On **safety**, we see a pressing need for **strategic engagement between the HSE, Ofgem and government**. Detailed interpretation of HSE rules indirectly determines the amount of gas network spend yet substantive questions remain unanswered, creating needless funding uncertainty for the networks and risking customers over-paying e.g. on legacy disconnections, on leakage detection, on MOBs and on long-run operational costs. Urgent discussions are needed to clarify HSE requirements relating to GD3. This should then be followed by a longer-term strategic dialogue on how best to manage safety cost-effectively in the context of a network with declining customer numbers.

Finally, early in the GD3 price control period, work is needed to fill **policy gaps that are crucial for GD4 planning**. This includes the welcome work heralded by DESNZ to look at the longer-term regulatory framework and an acceleration of the work Ofgem has initiated on customer disconnections. Ofgem should set out the work needed in this GD3 "window" including any additional GD3 requirements for the networks to prepare or provide evidence.

We would also highlight the following specific "asks" for GD3 Final Determinations:

- **Vulnerability** - the introduction of a licence obligation to ensure that companies deliver their "business as usual" vulnerability work which is now being funded through baseline;
- **RESP coordination** – provision of baseline funding for RESP engagement, reflecting the new Ofgem licence condition and recognising the importance of GDN data to the RESPs;
- **Net zero (NZARD)** - an increase in the NZARD cap (capped at GD2 levels updated for inflation) to accommodate the range of new activities it is expected to cover, including innovative approaches to methane leakage and RESP co-ordination;
- **Consumer satisfaction** - a re-weighting of the CSAT incentive to reflect the declining importance of connections; and
- **Environmental Action Plans** - close monitoring by Ofgem of key elements of company EAPs (in particular, methane emissions and biomethane injections) rather than simply relying on stakeholders to hold companies to account via the Ofgem "reputational incentive".

On **gas transmission** we welcome the strong focus on reducing methane emissions – albeit we raise questions around the level of ambition in some of the targets. We are struck by the contrast with gas distribution which lacks this focus on reducing methane emissions despite significantly higher emission levels. We would urge Ofgem to adopt a more consistent approach across gas transmission and distribution on methane reduction and to encourage the sharing of learning.

We hope you find our response helpful and would be happy to discuss further.

Yours faithfully

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20 August 2025

Commentary on Ofgem's RIIO-3 Draft Determinations
Gas Distribution (GD3)

Background

Sustainability First is a charity and think tank focused on social and environmental issues in the energy and water sectors with a record of engagement on policy and regulatory issues, including as past members of Ofgem's RIIO-2 Challenge Group.

Recent work by Sustainability First on the future of the GB gas distribution networks includes our 2023 paper[1] "Looking Through the FOG - the Future of Gas Networks", our response to Ofgem on the Call for Evidence on the GD3 Business Plans[2] (our "Response"), our submission to Ofgem on gas network disconnections[3] and a day-long Sustainability First roundtable held on 1 May 2025. Sustainability First remains committed to a continuing role in taking forward this conversation.

Summary

This Commentary looks at Ofgem's approach to consumer and environment issues for gas distribution in their RIIO-3 Draft Determinations (2026-31).

We support Ofgem's continuing pressure on GDN capex, opex and repex funding allowances, given the current affordability challenge. We agree with Ofgem's modest move to accelerated depreciation for new gas assets with the aim of obtaining a fair balance for consumers in future-network cost recovery. Against the uncertain outlook for gas distribution we also support Ofgem's caution in funding a mix of specific activities and reopeners through uncertainty mechanisms. We see the overall estimated increase in network charges for gas distribution for GD3 as reasonable, the estimated depreciation charge included. With certain reservations on baseline funding, we largely support Ofgem's approach to consumer vulnerability.

For GD3 Final Determinations, we see three important gaps for Ofgem to address.

First, we are concerned that Ofgem's overarching GD3 narrative of 'business-as-usual'– combined with its overall approach to network innovation and outputs - risks selling the future

[1] https://sustainabilityfirst.org.uk/wp-content/uploads/2023/12/Sustainability_First_-_V2_Viewpoint_-_Gas_Network_Decline_and_Stranding_in_RIIO-3_-_v_041223_final.pdf
[2] https://sustainabilityfirst.org.uk/wp-content/uploads/2025/02/sf-gd3-cfe-response-060225.pdf
[3] 'Call for Input – Exercising Consumer Choice: A review of the gas disconnections framework' https://sustainabilityfirst.org.uk/wp-content/uploads/2025/04/Sustainabilty-First-Gas-Disconnections-Ofgem-CfI-21-Feb-2025.pdf

short. For Final Determinations, Ofgem must ensure that the GD3 price control is based on a strategic narrative which is far more future-facing, with a clear vision for the role of innovation. The gas distribution networks must be actively supported by Ofgem in GD3 to start to prepare for the many complex demands implied by the net zero transition including around heat decarbonisation. This also needs to include a stronger focus on the environmental imperative to reduce methane emissions (which successive price controls have unwound).

Second, the pressing need for strategic engagement between the HSE, Ofgem and government. Detailed interpretation of HSE rules indirectly determines the amount of gas network spend which Ofgem will allow to 2031, yet substantive questions remain unanswered and this creates needless funding uncertainty for the networks and risks customers over-paying e.g. on legacy disconnections, on safety aspects of disconnections more generally, on leakage detection and the knock-on for leakage control, and on long-run operational costs.

Third, early in the GD3 price control period government, Ofgem and HSE must prioritise a major new work-programme to fill policy gaps that are crucial for GD4 planning. This includes the welcome work heralded by DESNZ to look at the longer-run regulatory framework for gas and an acceleration of the work Ofgem has initiated on customer disconnections (to clarify safety requirements, end-to-end costs and supply-chain responsibilities, as well as the question of socialisation of the costs). As part of GD3, Ofgem should set out the work it sees as needed and any additional requirements on the networks in terms of preparing or providing evidence.

Building on these themes, this Commentary is organised as follows.

Over-arching messages for Final Determinations

1. **Ofgem's narrative for gas distribution in GD3 must become more future-facing**
2. **Methane emission reduction is integral to this narrative**
3. **Totex allowances reflect a 'business-as-usual' approach**
4. **Ofgem needs an innovation vision for gas network transformation**
5. **Ofgem must make best use of the pre-GD4 'window'**
6. **HSE and safety – strategic engagement a priority**

Specific elements of the Draft Determinations

7. **Accelerated depreciation**
8. **Disconnections – a priority area**
9. **Payback period for investments**
10. **RESP coordination and GDNs**
11. **Policy development for the future of gas (inc biomethane)**
12. **Environmental impacts**
    - **Leakage detection**
    - **EAP reporting**
13. **Consumer vulnerability**
14. **GD3 impacts on network charges and affordability for customer bills**
15. **Stakeholder engagement and consumer voice**

Annex: Responses to selected Ofgem Questions (GD & GT)

OVER-ARCHING MESSAGES FOR FINAL DETERMINATIONS

1. Ofgem's narrative for gas distribution in GD3 must become more future-facing

Sustainability First's chief interest in the GD3 price-control is future-facing. That is, how can this price-control period (2026-31) best start to address the major and highly complex consumer and environmental issues implied by the transition to net zero, in ways which can ultimately be cost-efficient, safe and intergenerationally fair.

We agree with Ofgem that: *'It is vital that the GDNs continue to provide a secure, uninterrupted supply of gas to the 22 million homes and businesses, industrial users and power stations currently connected to their networks'.* And we also agree that *'Better system planning is needed to manage the transition away from natural gas use while maintaining resilience for gas consumers'* [4].

In practice however there is still no line-of-sight or collective view around the future for the GB gas distribution networks. Major policy uncertainties persist, not least on household heat. The recent DESNZ policy update on a work programme for mid-stream gas is therefore a welcome and important first step[5].

The NESO duty to develop whole system approaches to planning and the set-up of Regional Energy Strategic Planners (RESPs) will also fill certain gaps. Ofgem say the RESP *'...will support this transition and inform strategic investment at the distribution level in electricity and gas'* [6]. This will require significant input from the GDNs -see section 10 below on RESP co-ordination

Reality however means that both the DESNZ work programme and set-up of the RESPs will take time and all come too late in the day for GD3. Aside from the helpful future-facing signal from Ofgem on accelerated depreciation (section 7), we find that the main narrative of the GD3 Draft Determinations remains very much 'business-as-usual'. Such thinking aims to reassure but also risks selling the future short.

Ofgem say[7]: '*While electrification is central to net zero, we do not expect large-scale changes to the natural gas network during the RIIO-3 period. Maintaining safety and resilience remains paramount. However, the transition away from natural gas is gathering momentum, albeit at an uncertain pace. Future decisions - such as repurposing assets for hydrogen, carbon capture, biomethane, or decommissioning - will depend on national and devolved energy policy, including around heat decarbonisation*'.

While we agree that many such decisions are for policy, there are also important future-facing questions - for GD3 and also GT3 - as to what evidence might be needed by government, the NESO / RESPs, Ofgem and also the networks to inform those future decisions and what preparatory (low regrets) work might be undertaken now to enable timely implementation of any decisions, noting the tight timescales for action to meet upcoming carbon budgets.

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[4] OD 2.19
[5] DESNZ. Mid-Stream Gas System ; update to the market. 30 June 2025 https://www.gov.uk/government/publications/midstream-gas-system-update-to-the-market
[6] OD 2.20
[7] OD p 23. 2.3 – 2.4

So, as well as the considerable business of 'day-to-day' network management and new repex-related investment in GD3,[8] Ofgem must also look more clearly towards the decarbonised future for gas that DESNZ signals.

In producing this Commentary on Ofgem's Draft Determinations for GD3 we have looked across upwards of ten documents. Within the overall price control there are of course scores of individual measures addressing regulation of future gas network activity and funding. Yet Ofgem has not anywhere pulled together these very many separate strands into a coherent future view. Ofgem must make its thinking far clearer on how this GD3 price control will help the gas distribution networks prepare during the next five year period for the huge transformation ahead. For Final Determinations Ofgem must articulate a clear strategic narrative for GD3 to support and focus the work of the gas distribution networks as they start to pivot towards that future.

A more forward-looking focus in GD3 will also enable both Ofgem and the networks to make robust and timely contributions to the DESNZ and NESO work programmes, now kicking off.

2. **Methane emission reduction is integral to this narrative**

Since GD2 we have argued for a stronger focus on methane leakage reduction, noting that as a Scope 1 emission, leakage accounts for around 95% of the gas networks' carbon footprint.

While it has a much shorter lifetime than carbon dioxide (CO_2), methane has a Global Warming Potential 86 times stronger than CO_2 over 20 years. Over a 100-year period methane is 28 times stronger[9]. Given this, the IPCC has highlighted the importance of methane reduction as one of the few ways to reduce the stock of greenhouse gas emissions in the atmosphere and to avoid dangerous climate tipping points. This was one of the reasons for the Methane Pledge that many countries (including the UK) signed at COP26. The EU has recently introduced a Methane Regulation[10] requiring improved measurement, monitoring and reporting, building on UN protocols.

These messages are reinforced in the UK government's methane memorandum[11] which also talks about the good progress that the gas networks have made in reducing leakage, largely through the iron mains replacement programme. We were pleased to see (in the sector specific methodology consultation) that once the updated cost of carbon is taken into account, the payback on repex in the IMRRP is transformed compared to the view taken in GD2 and is now clearly seen as delivering value for money. Recognising the wider benefits identified in this assessment, Ofgem should be confident to press the GDNs to take wider action on methane emissions reduction.

We are therefore extremely concerned that this is not seen as a key output for GD3 and frustrated at the way that the regulatory framework around methane leakage has unwound over

[8] Iron Mains Risk Reduction Programme (IMRRP) to 2032 and associated works

[9] https://www.ccacoalition.org/short-lived-climate-pollutants/methane

[10] https://www.consilium.europa.eu/en/infographics/fit-for-55-cutting-methane-emissions-in-fossil-fuels/

[11] https://www.gov.uk/government/publications/united-kingdom-methane-memorandum/united-kingdom-methane-memorandum . November 2022

successive price controls. While we welcome the £52m funding that has been allowed for Advanced Leakage Detection we are unhappy with the positioning of it as simply responding to HSE requirements on condition monitoring.

Financial incentives on methane leakage were introduced in GDPCR in 2008 to drive a focus on environmental emissions and were maintained in RIIO GD1. These were weakened in GD2 to focus solely on pressure management and conditioning. For GD3 financial incentives have been removed altogether with the SSMC signalling that there would instead be UIOLI allowances for innovative investments aimed at reducing leakage. We welcomed the UIOLI as allowing action on elements of leakage not covered in the shrinkage model such as above ground installations (which account for c20% of leakage). However, this UIOLI allowance has been absorbed into NZARD with NZARD funding set in Draft Determinations at GD2 levels (updated for inflation). This in effect means that the shrinkage UIOLI has vanished. We would urge Ofgem to set NZARD allowances at a level that reflects the policy intent in SSMC.

We comment in more detail in section 12 and in our response to GDQ1/2 on the specific elements of the Draft Determination relating to reduction of methane leakage but would stress here the need for this to be seen strategically as integral to the actions needed to meet net zero and future carbon budgets. For as long as there are some customers connected to the gas networks methane leakage will be contributing to climate change and must therefore be an essential part of the future-focused narrative called for above.

We are also struck by the much stronger emphasis placed on methane reduction in gas transmission with a number of financial incentives and other mechanisms aimed at eliminating venting and targeting other sources of emissions. Given the overall climate impact of methane emissions from distribution is over six times higher than from transmission[12] this disparity in approach is particularly concerning. We urge Ofgem to adopt a more consistent focus and to ensure learning is shared across sectors.

3. **Totex allowances reflect a 'business-as-usual' approach**

Ofgem state that they expect network companies to avoid any spending not essential for safety and security of gas supply[13]. On totex, Ofgem note how GD3 '*looks broadly similar to RIIO-GD2 in the context of the workloads, activities and responsibilities the GDNs are required to undertake'* [14] – plus on TIM that the majority of activities the GDNs expect to undertake in RIIO-GD3 are '*well understood, repeatable and predictable*' [15].

With persistent challenge on the cost-of-living and affordability, we support Ofgem maintaining pressure on totex allowances while at the same time ensuring safety and security of gas supply – to which we would add reducing methane emissions as set out above Cost-efficiency remains a key price-control outcome for customers, all the more so against a back-drop of a reducing customer base.

[12] Source company AERs - tCO2e from shrinkage for the GDNs and tCO2e from venting and leakage for NG

[13] OD 7.15 – i.e for allowed revenues, UMs & stranding risk / RAV recovery

[14] Totex benchmarking para GD 5.186

[15] TIM para GD 5.327

Some companies have indicated disquiet at Ofgem scaling back proposed allowances. Ofgem explain that their revenue decisions split into three categories: not justified / more evidence needed / efficiency benchmarking[16]. Between now and Final Determinations GDNs and Ofgem will discuss individual cost allowances – notably where Ofgem requires more evidence. But we also note an underlying issue of principle for Ofgem – raised previously in our Response – on the ageing nature of certain gas distribution assets, installed forty or more years back. If we are to look towards a network that will be cheaper to run, with minimal methane leakage, questions arise for Ofgem about the realism of their current approach to network investment appraisal and how decisions on whether to repair or replace ageing gas distribution assets are best evaluated (see section 9 on Ofgem's use of an 11-year payback criteria).

In addition to 'baseline' funding allowances agreed upfront, Ofgem also addresses the question of uncertain or unknown requirements for GDN funding within the GD3 period via specific uncertainty mechanisms. For example, on biomethane connections, reopeners on net-zero, heat policy or HSE policy, for expenditure on disconnections etc. Given the many uncertainties which GDNs face, and where expenditure is justified, we support this approach. Given the wide range of policy uncertainties, we call in section 11 below for a clearer mapping of future policy decisions against the UMs.

4. Ofgem needs an innovation vision for gas network transformation

As discussed above, the Draft Determination documents give scant attention to what practical steps long-run transformation of our gas networks may likely entail. Gas networks, as well as electricity networks, require Ofgem to have a strategic view about the future, however uncertain that may be.

As a part of this Ofgem must set out a far clearer vision for how they see the role of innovation in supporting the transformation that decarbonisation will entail for the gas networks. At present the combination of different funding mechanisms and piecemeal decisions on what has and has not been funded makes it hard to get a view across the sector of what is needed and how it is being delivered. Innovation activity should be seen as a collective exercise with a strong emphasis on shared learning.

In Final Determinations, Ofgem's must ask itself whether its approach to innovation delivers a strategic, forward-looking and coherent package for GD3 – able to encourage the gas distribution networks towards outputs which are indeed future-facing, suitably innovative and cost-reducing - whether on data and digital, network monitoring, leakage and shrinkage management, on biomethane connections and development, on re-purposing, on alternative network uses, and on decommissioning.

Ofgem has signalled a shift to a more programmatic approach to SIF funding which we welcome but would stress that this needs to include challenge areas relevant to the future of gas, building on the focus areas for innovation highlighted in the Business Plans, even if projects were not yet fully developed or articulated.

In our original report we highlighted the need *now* for innovation looking at how to reduce the costs of disconnection and eventual decommissioning and to explore alternative uses for the

[16] GD 2.7 – 2.10

networks (beyond green gases) given the significant costs involved, estimated at £79bn by the NIC (now NISTA). We were therefore pleased that Ofgem referenced this in its GD3 Business Plan Guidance but noted in our Response that in GD3 Business Plans there were relatively few projects put forward by the companies and with little detail, which is disappointing.

Priority areas for innovation that we would like to see Ofgem highlight in Final Determinations are projects to inform government policy across the whole spectrum of future facing issues for gas distribution as well as the development of more cost-efficient solutions for disconnections and decommissioning. This should include, for example, the whole system challenges around MOB decarbonisation (in collaboration with others), given the near-term costs in safely continuing to serve these buildings with gas.

5. **Ofgem must make best use of the pre-GD4 'window'**

Prior to GD4 planning beginning in earnest, there is a welcome two year 'window' in which to explore more openly the future for GB gas distribution through the 2040s and in some cases beyond. Critically, work must begin on how to ensure that the future is fair and affordable for both present and future gas consumers. As both we and DESNZ have noted, work is also needed on how the present regulatory framework needs to evolve to ensure longer term financeability of RAV-based gas assets given long-run safety considerations, obligations, liabilities and uncertainty around future gas demand.

GD3 must not be simple 'business as usual' nor five years of 'wait and see'. There are lessons here from ED2, where on certain 'hard-to-solve' topics Ofgem acknowledge insufficient progress 'within period'[17] which then limit the options available for evolving regulatory approaches in ED3. Ofgem must commit to making best use of the GD3 period to 2031, and in particular the first two years that precede the start of planning for GD4. This means moving beyond a focus on cost control, to focus on the outputs needed to become 'future-ready'. As noted, within these timescales one priority must be for Ofgem to take the lead, together with DESNZ and HSE, to address arrangements for the detailed handling and funding of gas network disconnections (see section 8). We also highlight the need for better metrics on methane leakage (see section 12).

For Final Determinations we therefore wish to see Ofgem specify how it will make best use of the upcoming price-control 'window' to make progress, together with the networks, on particular future-facing topics that are inherently complex with a view to improving underlying data and informing strategies in readiness for GD4.

6. **HSE and safety – strategic engagement a priority**

Maintaining safety is rightly a priority and drives the majority of GDN costs. For as long as there are customers connected to the gas networks, safety must be maintained.

In our Response we highlighted HSE's central role as safety regulator in terms of ongoing costs of running the gas networks. HSE's need to safeguard its arms-length role as safety regulator is

[17] Improvements in approaches to measurement of distribution losses is one such example

understood. However, this should not stand in the way of much-needed, and now urgent, strategic engagement between HSE, Ofgem and DESNZ.

First, with a focus on Final Determinations, dialogue is needed to resolve detailed interpretation of HSE rules which indirectly but largely determine the amount of spend that Ofgem will allow the gas networks out to 2031. Underscoring this point, Ofgem's GD Annex has sixty-two mentions of HSE. Substantive safety-related questions remain unanswered, creating unnecessary funding uncertainty for both Ofgem and the networks and potentially higher costs for customers. This includes clarifying rules relating to legacy disconnections, on certain safety aspects of gas disconnections more generally - see Disconnections (section 8), and approaches to leakage detection and knock-on actions required (section 12). There is a need for urgent Ofgem engagement with the HSE to understand its position on these points "from the horse's mouth" – and to be clear where they do or do not represent a change in HSE requirements.

Second, we note that Ofgem expect to limit the HSE GD3 re-opener to formal HSE rule changes and that the networks are concerned that this may exclude cases where the HSE changes its view of what is needed to meet high-level obligations on safety. We can see this is a potential issue but equally would be concerned about too broad a re-opener, leaving customers taking all the risk. We hope that Ofgem will be able to find a balanced way through this in discussion with the HSE.

Third, beyond Final Determinations, there is need for a transparent three-way dialogue between HSE, Ofgem and DESNZ on the vision for HSE's longer-run operational safety requirements in ways that take appropriate account of future cost-efficiency and changing demands for gas distribution.

Across the piece we hope that Ofgem and DESNZ will work closely with HSE to help put interpretation of HSE safety decisions for gas distribution in a clearer future-facing context. This includes a better understanding of how HSE sees its new growth duty intersecting with their other safety responsibilities.

SPECIFIC ELEMENTS OF GD3 DRAFT DETERMINATIONS

7. Accelerated depreciation

We are very pleased that Ofgem is proposing to move forward in GD3 with a "cautious but proactive" approach to accelerated depreciation, with a 2050 RAV recovery date applied to new assets only. In our Response we acknowledged near term bill impacts, the significant uncertainty about future demand and about the 2050 residual value which militated against aiming for full RAV recovery by 2050. However, we also stressed the importance of taking at least some modest steps now - both to send a signal and to start to reduce the burden on future consumers. We are happy that the proposed approach offers a good middle course.

As additional evidence in support of this middle course we noted in our Response that under the current sum of digits depreciation, any assets installed this year would be 80% depreciated by 2050 (which feels reasonable given the uncertainties). We also suggested Ofgem might look at the impact of its proposals for the debt inflation adjustment and the move to a nominal cost of debt (which has been adopted in other countries as a form of accelerated depreciation).

At section 14 below we look at the full bill impact of Ofgem's Draft Determination which helps provide reassurance that the £8pa impact of accelerated depreciation is reasonable.

8. **Disconnections – a priority area**

Disconnections are critical to customers, networks and retailers alike and Ofgem's slow progress in its parallel work on disconnections is disappointing.

We have already noted how in readiness for GD4, Ofgem along with DESNZ and HSE should commit to address arrangements for the detailed handling and funding of gas network disconnections early in GD3.

We note below (section 10) the lower short term projections for heat pump take-up in FES 2025 but still see thinking around disconnections as a priority area.

In the near term for GD3, very significant uncertainty still exists around the level of costs associated with customer disconnection from the network and this is a matter for continuing concern. Ofgem will need a unit cost to include in the volume driver and the range quoted in Draft Determinations of £300-£1800[18] shows how far we are from having a robust figure. As set out in our response[19] to the earlier Call for Input on Disconnection this must be a priority for GD3, including a clear and common understanding of the disconnections process and HSE requirements.

We are aware that Ofgem has recently issued a very detailed Request for Information to gas networks on the costs of disconnections[20]. It is unclear whether the networks have the data requested at that level of granularity and whether the timescales for response (1 October) give enough time for the analysis to feed into GD3 Final Determinations. More importantly it seems meaningless to look at historic costs in this way without a clear and detailed understanding of what both the networks and suppliers are doing in practice and how HSE expectations may be evolving with the increased volume of disconnections. It is also unclear whether all the networks interpret the safety requirements in the same way and what scope there might be for improved efficiency (for example, through NGN's "squeeze-off tool" innovation project). For Ofgem to make sense of the responses it gets to this Request for Information, these issues need to be considered in-depth with relevant key stakeholders.

We also note that Ofgem will not implement changes to its gas disconnections framework before Final Determinations. This work programme will anyway take time, given involvement also of government, HSE and possible secondary legislation. We are however pleased that Ofgem agrees with the point we made in our response to the CFI on the need for a holistic view[21]. This must include taking account of the important role played by suppliers.

We remain keen to engage on the longer-term issues of principle around these costs – in particular, how far these costs can or should continue to be socialised. There was clear

[18] GD4.51

[19] https://sustainabilityfirst.org.uk/wp-content/uploads/2025/04/Sustainabilty-First-Gas-Disconnections-Ofgem-Cfl-21-Feb-2025.pdf

[20] https://www.ofgem.gov.uk/sites/default/files/2025-08/Request%20for%20Information%20Gas%20Disconnections%20Framework%20Review.pdf – 6 August 2025. To gas distribution networks and independent gas transporters – but not gas transmission.

[21] GD 4.45

consensus at our Sustainability First roundtable in May 2025 that the topic of disconnections is increasingly very material and requires far more attention from all those involved. Sustainability First remains keen to see a 'deep-dive' on disconnections to further inform thinking, and which we would be happy to help facilitate. One near-term output would be to enable Ofgem to provide clearer guidance to customers on the "disconnection journey", widely acknowledged as a highly confusing process.

9. **Payback period for investments**

In making the case for particular investments in their Business Plans the networks must present a cost benefit analysis (as part of an Engineering Justification Paper). This looks at the costs and benefits of the different options over time, ultimately informing decisions on replace or repair. At Draft Determinations Ofgem used an 11-year payback period against which to test proposed network investments (and in particular non-mandatory repex). This means projects must pay back in terms of their CBA by 2037[22]. In our Response to the CfE we noted that the GDNs continued to assume a 16 year payback as used in GD2, despite us now being 5 years closer to 2050. Ofgem's decision to reduce the payback period by 5 years for GD3 addresses that issue but feels too simplistic. In cutting repex which does not meet this payback test we have a concern that Ofgem (and by implication the networks) may be storing up problems for the future.

There is now a better understanding that the networks will remain in use (and must be kept safe) until all customers on that section of the network are disconnected and that for the short-to-medium term at least there seems little appetite from government for a more geographic mandated approach.

As set out in our discussion of FES 2025 (in section 10 below), we note the lower projections of heat pump take up in the short to medium term albeit with a higher ultimate reliance on electrification.

Given that context, it would seem increasingly likely that, in practice, most of the gas distribution network will still be needed through into the 2040s.

With a shorter payback period (i.e. reflecting an assumption that the networks truly only have a further 11-years of remaining life) then you would be more likely to focus on repair of aging assets as against replacement. However, viewed over a longer time period, this may well not be the best approach.

In our Response we argued that the payback period should depend on assumptions under different scenarios around the timeframes for ultimate decommissioning / re-use or repurposing, potentially resulting in a different approach for different assets at different pressure levels in the network.

We also see this as an important inter-generational issue. With a declining customer base it is important that the ongoing costs of maintaining the network through the late 2030s and into the 2040s are as low as possible. Failing to invest and also to actively innovate now will likely increase maintenance and repair costs in future.

[22] Note this is different to the Accelerated Depreciation period which reflects the period over which the costs are then recovered from customers through network charges.

Of course, we recognise the imperative to contain expenditure in GD3 given wider affordability challenges and that the information asymmetry means there is value for Ofgem in a mechanism under which only those projects that deliver the greatest consumer benefit go ahead. We also recognise that a more sophisticated approach to payback is not feasible at this stage. However, in their discussion with the networks around costs that have been excluded, we would encourage Ofgem to be open to cases where networks can show that an asset is particularly likely to be needed further into the future or where the future maintenance costs could be particularly burdensome if the investment is not carried out.

We would encourage Ofgem to be clearer in Final Determinations about the rationale for the use of an 11-year payback in GD3.

10. GDNs and RESP coordination

Good working relations between the NESO, RESPs and GDNs are essential to timely delivery of both national and regional whole system energy plans. But GD3 Business Plans were submitted in late 2024, several months before Ofgem had finalised its framework for the RESPs.

Ofgem set out their plans for RESP activity and the role of the distribution networks in their RESP policy framework decision (April 2025)[23]. Ofgem's draft RESP guidance document (July 2025)[24] sets out initial requirements for the networks to provide information and data on supply and demand to the RESPs – and proposes new electricity and gas distribution network licence obligations to provide this data.

In addition, the recent Ofgem decision on Governance of the Data Sharing Infrastructure (April 2025)[25] talks about preparation of data as a strand of activity and highlights a Type 1 Use Case on Strategic Planning (requiring Ofgem/DESNZ approval).

In Draft Determinations Ofgem has not set out an over-arching or clear picture of their own thinking on how GDNs within GD3 timescales should best support developing relations with the eleven RESPs and the preparatory work that the GDNs will need to do to support this.

Given the importance within the next five years of setting GDN / RESP relations on a right future path we would urge Ofgem in Final Determinations to pull together its current fragmented thinking on GDN / RESP co-ordination and to set out far more clearly Ofgem expectations on the GDNs' role in this space in GD3 and how this will be funded. This clearly needs to be agreed with the NESO / RESPs given their lead responsibility for delivery.

Ofgem's RESP guidance document notwithstanding, there is still a long way to go until exchanges of information and data between RESPs and GDNs eventually bed down and hence Ofgem's proposed use of uncertainty mechanisms makes sense. That said there must be a core level of resourcing that the GDNs will need to engage with the RESP process and which it should

[23] *https://www.ofgem.gov.uk/sites/default/files/2025-04/RESP-policy-framework-decision.pdf* April 2025

[24] https://www.ofgem.gov.uk/sites/default/files/2025-07/Annex-E-Proposed-RESP-Guidance-document.pdf - 11 July 2025

[25] https://www.ofgem.gov.uk/sites/default/files/2025-03/Governance_of_the_Data_Sharing_Infrastructure_Decision.pdf 1 April 2025 Paras 1.4 and 4.10-11

be possible to identify now and include in baseline funding. We would expect that some of the baseline funding for data and digital may also be relevant here but again this it is not clear.

RIIO-3 retains two net-zero uncertainty mechanisms for GD - the NZARD UIOLI allowance and the NZASP reopener[26]. For Final Determinations Ofgem should provide a clearer explanation of which RESP coordination activities they regard as suitable for funding under each.

NZARD funds small projects below £2m. RESP coordination for gas distribution has been added to the NZARD criteria: '*This will enable funding for lower materiality RESP-related investments, such as preparatory investments or projects that support the work of the RESPs. We consider this coordination and preparatory work to be beneficial as it will ensure that the GDNs have the agility and adaptability to respond to the RESP's recommendations efficiently and at pace'*.

While this funding route makes some sense, we are concerned that this is a new activity area added to NZARD (along with reducing methane emissions – see section 12) while the overall NZARD allowances have been kept at GD2 levels (updated for inflation). We would ask Ofgem to extend the NZARD cap as necessary to ensure that preparatory RESP work can indeed be funded through this route.

NZASP is an Ofgem triggered reopener with a project cap of £100m for '*net zero-related pre-construction work and small net zero facilitation projects that are too material for the NZARD UIOLI, including shrinkage activities, Digital Platform for Leakage Analytics (DPLA) for GDNs and RESP coordination costs for GDNs'*.

Ofgem has explicitly decided not to widen the scope of the NZASP re-opener for RIIO-3 *'including for costs related to NESO strategic planning'*[27]. Ofgem has also rejected a GDN net-zero transition planning project proposal because '*the proposal assigns certain strategic planning accountability to the GDN instead of NESO which contradicts RESP policy'*[28]. In similar vein, a digital and data project is part-rejected pending clarification on whether use-case elements may duplicate work of the RESP[29].

While Ofgem is right to highlight NESO's lead role on strategic planning including as coordinator of the data sharing infrastructure (DSI) it must be assumed that it will need significant input from the GDNs to take this work forward, in particular in GD3, where NESO's early focus will be on electricity and with the DSI still being established. Additional data may be needed that is not currently collected. Lack of good quality data from GDNs must not become an obstacle to delivering RESP plans in the timescales envisaged by Ofgem.

Ahead of Final Determinations, GDNs, Ofgem and the NESO / RESP should therefore come together to resolve how GD3 funding allowances can best contribute to the data-requirements of the RESPs within the next five-year period.

Given the structure of NZASP as a re-opener it feels well suited to dealing with the uncertainties around future roles and requirements. It is not clear why at this stage Ofgem needs to rule particular projects in or out of scope. While it may be helpful to give a sense of the criteria that would make a project eligible for NZASP funding, a blanket rejection of anything which may

[26] OD 6.14 - 28
[27] OD 6.26
[28] GD 5.171 . Cadent 2.38-40
[29] INV-50 Cadent 7.6

relate to "strategic planning" at this point feels too broad (noting that the RESPs are delivering regional energy strategic plans).

Projections of future gas demand

In our Response we highlighted the need for more credible demand forecasts around heat pump take-up over the next 5 years to inform key Ofgem decisions in GD3, but for the time being, the FES remains the 'the only show in town'. As anticipated, the 2025 FES scenarios now include lower projections for heat pump take-up through to 2030 than FES 2024[30]:

"*Although 2024 saw a 56% increase in heat pump sales compared to 2023, this was around half the number of sales in FES 2024's Holistic Transition and Electric Engagement pathways for the same year. Therefore, FES 2025 has slowed down the ramp up of heat pump installations. This leads to lower heat pump stock until the late 2040s. After this point FES 2025 has more heat pumps from greater housing stock forecasts and less use of hydrogen and biofuel boilers*."

While there is still a high level of uncertainty, we hope that directionally at least, Ofgem will take account of the implication of these projections on gas disconnections in considering issues such as the payback period flagged above.

Looking to the future, the Ofgem RESP Policy Framework Decision[31] sets out more detail on how gas distribution network plans will be expected to align to the pathways at low-pressure system level, but with a time delay to allow the RESP to drive development which responds to rather than precedes changes in gas demand.

In Draft Determinations Ofgem says[32] : '*Reduction in GD network capacity must not precede reduction in demand. As such in our April RESP framework decision we said that we will work closely with NESO to define an appropriate time delay for GDNs to align with RESP. We expect RESP to play an increasing role in future price controls'.*

We have no special insight into the detailed process of developing the RESP pathways, but the approach of enabling an initial 'lag' for gas in arriving at a single whole system pathway seems to make sense. That said, the FES process illustrates how forecasts can vary from year-to-year (e.g. on trends in disconnection). Improved data during the GD3 period will therefore be a central input to development of an eventual whole-system common ten-year pathway. We would also urge transparency in how Ofgem, the NESO and RESPs determine what the appropriate time-delay might be. And again we would hope that Ofgem would take account of this framing in its decisions at Final Determinations.

11. Policy development impacting the future of gas

As we highlighted at our Sustainability First roundtable in May, there are a wide range of policy developments at a national and devolved level which will impact on the future of gas and could potentially have implications for GD3. We would encourage Ofgem to set out at Final

[30] NESO Changes from FES 2024 to 2025 - https://www.neso.energy/document/364556/download
[31] *https://www.ofgem.gov.uk/sites/default/files/2025-04/RESP-policy-framework-decision.pdf* April 2025. pp 33-35
[32] OD 2.20

Determinations how it sees the evolving policy landscape and how its GD3 uncertainty mechanisms map against the various policy decisions that are expected in the next few years.

As well as the establishment of RESPs (see section 10) we would highlight policy thinking around the future of gas and especially domestic heat and also biomethane discussed below. In addition, we would encourage more focus on policy issues impacting I&C customers and also EU developments (eg on hydrogen blending or on reducing methane emissions) which could have a knock-on impact given trade through the interconnectors.

One of the key messages from our Future of Gas work has been the need for a clear line of sight for consumers around heat decarbonisation. We hope that DESNZ will provide this through the work that it is undertaking.

We have also previously highlighted that with the CCC highlighting the limited uptake of heat pumps as a key risk for upcoming carbon budgets, DESNZ will need to give greater focus to this area going forward.

DESNZ – Future of Gas Work Programme

Sustainability First was very pleased to see the DESNZ paper setting out their proposed work programme[33]. This touches on many of the issues identified through our own work to date. We are therefore glad that Ofgem acknowledges this valuable DESNZ work to provide a clearer 'forward view' for the future of gas. In the year ahead, DESNZ will consult on gas system resilience, and undertake two calls for evidence: on network investment and affordability; and on transitioning the gas system. While we recognise that major policy questions are for government to address, it is clearly important that through the early part of GD3 both Ofgem and the networks should start to collect the evidence needed to inform these major policy decisions.

Heat policy

While the main direct impact for the GDNs is around the hydrogen for heat decision, we have flagged the wider impacts of the upcoming Warm Homes Plan, work on district heat zoning and, for example, the expected Scottish government Heat in Buildings Bill. We assume that any of these could trigger the heat policy reopener if there were to be material impacts for the GDNs but would encourage Ofgem to set out its best understanding of likely timelines and potential impacts.

Biomethane development

In our Response we supported GDN proposals around biomethane connections as helping reduce near term carbon emissions. There is a growing GDN focus on longer term biomethane potential in the future network mix. The Green Gas Taskforce is exploring the outlook for much higher volumes of biomethane than today. This includes potential use in power generation, for industrial heat, or for use in household boilers.

The NESO FES 2025 pathways include a very significant increase in levels of biomethane over the coming decade – with 65TWh anticipated by 2050 - and (reflecting its wider approach of using the FES scenarios to underpin RIIO decisions) we would expect Ofgem to take this into account in its Final Determinations.

[33] https://www.gov.uk/government/publications/midstream-gas-system-update-to-the-market

A biomethane policy framework is expected from government later this year[34] which, from a GDN standpoint, will hopefully address some key questions. This includes sustainability of biomethane feedstocks, projections of biomethane capacity, preferred biomethane applications etc – as well as possible interventions for future support.

Against this backdrop, it seems reasonable for GDNs to plan in GD3 for higher annual volumes of biomethane than today's comparatively low levels[35] – albeit that some policy uncertainty remains.

Given this, we would like to see a clearer articulation by Ofgem of how its decision at Final Determinations responds to that shifting policy landscape. As set out in our answers to questions (GDQ20) we are unclear how far the UIOLI allowance is simply a replacement for the Green Gas Support Scheme; where additional funding has been provided to networks to support specific proposals around biomethane and where additional funding could be obtained through uncertainty mechanisms to support, for example, reverse compression if that is needed to deliver the step change in volumes envisaged in FES 2025.

A clearer narrative is needed on biomethane for Final Determinations, together with a commitment from Ofgem to track progress through GD3, looking both at the level of new connections and the volumes actually injected.

12. **Environmental impacts – leakage detection and EAP reporting**

Leakage detection

In section 2 above we set out why reducing methane leakage must be an essential part of Ofgem's future-facing narrative for GD3. In our Response we flagged the importance of improved monitoring and detection to help reduce significant near-to-medium-term UK greenhouse gas emissions. We also noted the role that this could play in better asset management approaches by bringing down the costs of maintaining the networks in the long term. We are therefore pleased that Ofgem has allowed funding for Advanced Leakage Detection (ALD) (in particular, the vehicles that can drive around and detect leaks) and allowing either funding or a re-opener for Digital Platform for Leakage Analytics (DPLA)[36].

However, we are aware from a recent Ofgem repex working group that there are significant variations in what individual companies are planning to do under ALD in terms of the frequency of vehicle surveys and whether fixed sensors are included (to detect leakage from above ground installations, responsible for c20% of leakage). Absent any financial incentive around reducing methane leakage Ofgem must set clear standards to drive performance in this area, including on above ground installations.

We note that Ofgem has rejected company requests for funding to cover the costs of additional workload resulting from ALD on the grounds that ALD should support prioritisation of work. We understand this for repex under the IMRRP but are aware that the current safety obligations (including the 1 and 2 hour response times) could mean that if companies detect more leaks

[34] Together with a separate Scotland biomethane policy document
[35] 5.5 TWh today (FES 2025 p 57) - of total gas demand of 688 TWh in 2024 - https://www.gov.uk/government/statistics/gas-section-4-energy-trends
[36] Digital Platform for Leakage Analytics – A Cadent led SIF project

they will indeed need to fix them. Our vision is that by moving from a reactive to a proactive model for leakage management the companies should be able to reduce costs longer term. But we would encourage Ofgem to work with the GDNs and the HSE to ensure that there are clear expectations around the impact on workload arising from ALD and how that would be funded in the near term.

We would also challenge the portrayal of DPLA in Draft Determinations as being only about updating the shrinkage and leakage model. As a part of the SIF project Cadent has been piloting a range of other methane detection technologies and data analytics which could help in detecting and monitoring leakage. From an environmental perspective we are keen that DPLA funding is available on a phased basis if needed to move forward with any additional early wins, ahead of agreement around the future for the shrinkage model itself. We also note in section 2 the importance of there being adequate NZARD funding given this was envisaged at SSMD as being the route for other innovative steps to reduce methane emissions.

Building on ALD/DPLA, we welcome that increasing access to observed data means that Ofgem will require GDNs to report on both modelled and observed data in their GD3 annual environmental reports[37]. We also agree with Ofgem that improved shrinkage data should inform development of a shrinkage incentive for GD4[38] and would encourage Ofgem to use the pre GD4 planning window to develop thinking and evidence for this.

Business Carbon Footprints

We support Ofgem's encouragement in their Business Plan guidance for GDNs to adopt business carbon footprint targets in alignment with the science-based target initiative (albeit formal SBTi accreditation awaits a final SBTi methodology for oil and gas which is currently on hold). We also note that Ofgem rejects targets submitted by GDNs for their business carbon footprint because it is '*not possible to meaningfully compare BCF ambitions set out in RIIO-GD3 Business Plans*'[39]. Ofgem is urging the companies to work together to produce a consistent methodology for target setting and to resubmit their BCF targets on a basis which is fully aligned. We agree with this.

EAP Reporting – a role for Ofgem

The Environmental Action Plans are positioned as a reputational incentive but we have consistently argued to Ofgem that it is impractical to depend on others to properly scrutinise and compare performance across companies, especially so for third-sector organisations and small charities such as ourselves. The ISGs only look at the performance of their particular network. We would therefore ask Ofgem to scrutinise company performance on key elements of the EAP as part of its annual reporting in the same way that it does for other elements of network performance. This comparative information will then allow other stakeholders, like ourselves and the ISGs, to more effectively hold the companies to account.

In its Final Determination on ED2 Ofgem committed to produce a mid-period review of the EAPs which we hope they will do and see as a potential model for other sectors. For GD3 we would therefore expect Ofgem also to commit to a mid-term review and in particular to actively

[37] GD 3.7 (p14)
[38] GD 3.37
[39] GD 3.11- 3.14

monitor progress on reducing methane leakage (both key metrics and the actions taken) and on biomethane (connections and injection rates).

13. Consumer vulnerability – effective delivery will require close scrutiny

Sustainability First has a long record in encouraging good practice for consumers in vulnerable situations. We are very concerned at current widespread levels of consumer hardship. We therefore support Ofgem's agreement to '*maintain the overall RIIO-GD3 consumer vulnerability funding package at a significant and impactful level*'.[40]

Baseline funding : Ofgem's updated 2025 Consumer Vulnerability Strategy sets out Ofgem expectations in the face of continued cost of living pressures, the pandemic hang-over and the need to deliver a just transition. Given this, we can understand why Ofgem has chosen to badge at least some GDN activity with vulnerable customers as 'business as usual' and to fund this via baseline allowances.[41] However, this raises some significant questions around how to safeguard this funding from being diverted to other priorities or 'captured' as efficiency by GDNs. Where Ofgem shifts vulnerability funding to baseline, considerable effort will be needed going forward to scrutinise delivery. On this, we support Ofgem plans for enhanced reporting and agree that a common set of metrics should allow consistent reporting in GDN Vulnerability Reports across the full range of these very important activities[42]. However, we would in addition expect to see a licence obligation around the treatment of vulnerable customers to help ensure that this baseline funding is used as intended.

Vulnerability and Carbon Monoxide Allowance (VCMA): Sustainability First along with others had argued strongly that final GD2 funding-levels should continue into GD3. We therefore welcome Ofgem's proposal in Draft Determinations for a £165m GD3 VCMA allowance, in line with GDN Business Plan proposals This is comparable to the final GD2 level of £171m (once account is taken of the additional BAU funding).

We also strongly agree with Ofgem that reporting, transparency and accountability arrangements must be updated through VCMA governance to ensure that the networks, together with their third-sector and other partner organisations, deliver impact and take forward lessons[43]. Sustainability First will wish to engage with Ofgem in this process.

Ofgem makes clear that it wishes the GDN VCMA role to remain focused on existing areas of competence and activity and '*not extend to the delivery of energy efficiency measures'*[44] – which, pending forthcoming announcements on energy efficiency measures in the Warm Homes Plan, may make sense.

14. GD3 impacts on network charges and affordability for customer bills

For RIIO-3, across transmission (electricity and gas) and gas distribution, based on energy consumption for a typical household, Ofgem estimate an increased annual network charge of

[40] GD 3.115
[41] GD 3.114-5
[42] GD 3.123 – 4
[43] GD 3.116
[44] GD 3.133

£104 p.a. by 2031. This does not reflect any increase in network charges which will arise from ED3 (ie from 2028 onwards).

Ofgem also estimate that this total increase of £104 p.a in network charges will very largely be offset by linked savings achieved elsewhere in the electricity system. Ofgem therefore conclude that for the bill of a typical energy consumer the overall impact of RIIO-3 network charges should amount to an estimated increase of £20 p.a. by 2031[45].

Ofgem's Impact Assessment[46] shows estimates of the separate network charges, including gas distribution. For typical household gas consumption, today's gas distribution charge is £161 p.a. By 2031-32 if RIIO-2 was simply rolled forward that charge would increase by £6 to £167 p.a. Ofgem then explain that under their RIIO-3 recommendations gas distribution charges in 2030/31 would increase by £23 to £189 p.a. Of this £23 p.a increase, £3 can be attributed to higher totex, £12 to cost of capital and £8 to accelerated depreciation of new assets[47]. As set out by Ofgem, the estimated GD3 increase in gas distribution charges for typical household consumption in GD3 seems broadly acceptable, including the level of depreciation charge per annum by 2031. We also note that the accelerated depreciation element will largely be back-loaded towards the end of GD3.

That said, on sensitivities, Ofgem note their assumption that gas demand and gas connections remain flat from 2025/26 onwards and say '*If we were to assume a declining number of gas customers, then our charge projections would have been higher than the ones presented'*[48]. Given that gas customer numbers can be expected to decline (albeit the pace is uncertain) it might have been helpful to quantify the likely impact of this.

We are also very mindful of the uncertainties around future energy bill estimates. Ofgem themselves comment in the sensitivity analysis for their impact assessment that *'The impacts of our RIIO-3 proposals on bills are highly uncertain'*.[49]

All of this reinforces the need for strong duties on the network companies towards their vulnerable customers, to make very good use of the VCMA, and indeed, for Ofgem to consider a similar additional vulnerability funding allowance to be introduced in ED3 (given the likely further cost increases that this will introduce). Beyond specific network measures, progress is also badly needed from government on targeted bill support to address energy affordability more generally – coupled with energy efficiency measures and, we would hope, additional measures introduced as a result of the Warm Homes Plan, expected this autumn.

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[45] OD p7, p11

[46] IA p 31 Table 6

[47] IA Table 6

1. Higher RIIO-3 totex - +£3
2. Lower capitalisation rate – n/a
3. Higher RIIO-3 WACC - +£6
4. Semi-nominal WACC - + £6
5. Accelerated depreciation of new assets in GD + £8

[48] IA p.31. Table 6

[49] IA p 42 Table 7 : *'The impacts of our RIIO-3 proposals on bills are highly uncertain; they depend on hard-to-predict factors such as future gas, constraint, material, and interest rate costs. We expect an overall net increase in bills compared to the alternative of delaying investment, but the actual effect is uncertain and could be a net reduction of up to £20'.*

It is of course very important to understand how the different elements of network costs break down – but beyond this it is also extremely important to understand the cumulative impact of wider energy system changes. The effect of network costs on energy bills – whether for gas or for electricity – must be understood in the round in order to address how these costs feed through in fair ways into tariffs and end bills. We therefore welcome Ofgem's forthcoming review of Energy Cost Allocation and Recovery. This is a huge topic, which going forward will give rise to different issues for how costs are recovered for gas and for electricity infrastructure. For gas, it will be necessary to establish fair principles for intergenerational approaches to asset depreciation (and the degree of front loading) as well as for policy on disconnections at scale (whether to socialise).

Non-domestic customers: Ofgem say that because there is no typical non-domestic energy consumer, it makes it difficult to provide a simple, universal estimate of RIIO-3's impact on non-domestic bills – but subject to the type of charges paid, Ofgem expect the net bill impact of RIIO-3 to be relatively small for the majority of non-domestic consumers (assuming the benefits from renewables / constraint benefits are achieved in the RIIO-3 period)[50]. Non-domestic customers represent 30-40% of GB gas demand[51] (for example, 40% on SGN's network) and therefore the impact of RIIO-3 decisions on their gas bills merits a better understanding.

More generally we have highlighted future I&C gas demand as a critical uncertainty and have argued for more work to understand the de-carbonisation options for I&C customers across different sectors – and how reductions in I&C gas usage might impact on domestic customers through network charging. Again, this is an angle that it is important for Ofgem to explore, working with DESNZ and NESO and through its own work on Energy Cost Allocation and Recovery.

15. Stakeholder Engagement and Consumer Voice

We value the role that the Independent Stakeholder Groups (ISGs) have played in the process of developing the Business Plans, scrutinising the engagement that the networks undertake and providing challenge around how well the plans reflect consumer and stakeholder views. We also see value in an enduring role to hold companies to account for delivery of the plans[52].

However, as past members of Ofgem's Challenge group for RIIO2 (and also as current ISG members) we are acutely aware that the ISGs are narrowly focussed on the proposals of their particular network. In contrast the Challenge Group was able to look across the networks and judge relative performance. We would encourage Ofgem to reflect on what it can do to fill that gap. Indeed we would observe that in RIIO 3 there were actually fewer opportunities for the ISGs to meet as a group with Ofgem and explore issues than in RIIO 2.

As a small charity we do not have the resources to under-take unfunded comparisons except looking across at some very narrow themes where we have a particular interest as on the Future of Gas.

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[50] IA 5.36-39

[51] https://assets.publishing.service.gov.uk/media/65b12dfff2718c000dfb1c9b/subnational-electricity-and-gas-consumption-summary-report-2022.pdf

[52] Maxine Frerk, joint-author of this Commentary, chairs SGN's ISG

We would also emphasise the real value seen in our May Roundtable on the Future of Gas where we delivered a carefully prepared, structured discussion with all the key stakeholders in the room. We remain of the view that there is a need for further similar deep- dives on topics such as disconnection. We would be keen to help facilitate this as part of Ofgem, NESO or DESNZ's future work in this area.

To conclude, this Commentary has set out a wide range of environment and consumer issues for gas distribution that need addressing ahead of Final Determinations - and in the early part of GD3, in readiness for GD4. These are complex and multi-faceted issues which merit more in-depth and interactive input from stakeholders than conventional consultation mechanisms allow for.

Brief answers to relevant questions (including some on gas transmission relating to methane emissions reduction) are set out in the attached Annex.

Maxine Frerk and Judith Ward
Associates. Sustainability First
20 August 2025

ANNEX

RESPONSE TO SELECTED OFGEM QUESTIONS ON GD3 AND GT3

1. Overview Questions

Introduction

OVQ1. We would welcome any views on the enduring role of the ISGs during RIIO-3 and for future price controls.

As set out in our Commentary we support the enduring role of the ISGs and see them as having a very valuable role to play in future price controls. However, we note that they are not in a position to look across sectors and compare across companies in the way the Challenge Group did previously. We would encourage Ofgem to think about how best to fill this gap, for example through the provision of more comparative data by Ofgem and / or more regular cross ISG engagement for individual sectors.

Outputs and incentives Cross-sectoral outputs

OVQ2. Do you agree with our proposed position on the Environmental Action Plan and Annual Environmental Report ODI-R for RIIO-3?

As set out in our Commentary we welcome the continued requirement for companies to have an EAP and to produce an AER. However, we have consistently argued that reliance on stakeholders to hold companies to account through an ODI-R is inappropriate. Without comparative data across companies it can be hard to judge performance and the AER commentaries are typically glossy documents that focus on the successes and not the shortfalls. Some areas such as leakage or losses are technically complex and performance can be hard to assess based on headline numbers.

Ofgem should give more thought to what is needed to make reputational regulation a success. As a minimum Ofgem should itself scrutinise environmental performance in the same way as it does other elements of the networks' performance and cover it in the annual RIIO reports that it produces. Having this comparative data (checked by Ofgem) would allow ISGs and other stakeholders to more effectively hold the companies to account.

We have also previously suggested some form of open hearing chaired by Ofgem – as for ED2 - where companies could be challenged on their environmental performance.

Finally, we would suggest that key projects that form part of the EAP may merit being treated as a PCD, even if they fall below the standard materiality threshold.

OVQ8. Do you agree with our approach taken to review of the Climate Resilience strategies?

We welcome the focus on climate resilience but have no comment on the specific approach.

OVQ15. Do you agree with our proposed design of the NZARD UIOLI?

As highlighted in our Commentary we are concerned that a number of important work areas are now envisaged as being taken forward through NZARD funding but the NZARD overall budget remains set at the GD2 levels (updated for inflation).

In particular, **tackling methane emissions** – which is a crucial issue for climate change - has moved in GD3 from being an ODI-F to a UIOLI allowance which is now simply subsumed in NZARD.

The other significant addition is **RESP co-ordination** which is a major structural shift for which no baseline funding is provided but which will require significant resource from the GDNs both for engagement and participation in the RESP process as well as provision of significant volumes of new data.

While Ofgem notes that in GD2 part of NZARD was used for hydrogen projects that will not be in scope this time, we are aware also of activities that were treated as PCDs in GD2 but that would fall within NZARD this time.

We would urge Ofgem to revisit the cap on NZARD funding to ensure that these new strategic work areas are adequately funded.

OVQ16. Do you agree with our proposed design of the NZASP re-opener?

As highlighted in our Commentary we are concerned that the broad exclusion of any activities "relating to strategic planning" may be unduly restrictive as the framework for developing the RESPs (ie regional energy system plans) is developed through GD3.

While we recognise that NESO retains responsibility for strategic planning we can envisage that it is likely to make significant calls on the GDNs to support it in that work (and indeed must if these plans are to be meaningful). We also see GDNs needing to put resources into engagement with local authorities to support the development of LAEPs.

While NZASP allows the costs of "RESP co-ordination" to be included, the scope, and how this differs from "strategic planning" is unclear.

Given that NZASP is an (Ofgem triggered) reopener it is not clear why Ofgem needs to rule specific projects in or out at this stage although a clearer articulation of what is in / out of scope would be helpful. For example, GDN activity on strategic planning might sensibly be allowed where it is part of a NESO led initiative or at NESO request.

Innovation

OVQ20. Do you agree with our proposed NIA funding levels?

We were struck by the significant cuts to NIA funding proposals from GDNs and note in our Commentary the importance of innovation in readying the gas networks for a very different future. In particular, we call for a much clearer future-facing narrative around the role of innovation – including looking across the different innovation funding streams to present a coherent whole.

OVQ21. Do you agree with our approach to the future of gas-related workstreams?

We recognise that there are key policy decisions that are for government - for example around hydrogen, hydrogen blending, hydrogen for heat, biomethane - but we are concerned there may be innovation work that could provide valuable evidence to support those decisions. Ruling out initial "evidence gathering" until a policy decision has been taken seems a strange formulation.

In addition, we see the potential for low regret, preparatory work in these areas that would allow decisions to be implemented more quickly.

We support the position that where work has clear benefits to consumers, regardless of the outcome of government decisions it should be supported and agree that decommissioning and biomethane are important areas to include.

OVQ23. Do you agree with our approach to improving oversight and reporting of the NIA?

Investment in innovation should benefit the sector as a whole (not just the individual networks). Improved oversight and reporting, including via the Future Energy Networks Innovation Portal, would seem positive provided the emphasis is on maximising learning and strategic alignment – and is not simply an administrative overhead.

OVQ24. Do you agree with our proposals to allocate £500m for SIF funding?

OVQ25. Do you agree with our proposals to introduce a 'Programmatic Approach' to the SIF?

We support Ofgem's proposal for a more programmatic approach to managing SIF challenges via the £500m SIF fund and ensuring wider industry collaboration.

We would encourage Ofgem to ensure that the SIF challenges adequately cover future of gas related topics and see SIF as an important way to encourage more collaboration including together with relevant electricity distribution networks (DNOs), as well as NESO / RESPs, heat networks. For example, we see SGN's proposal to explore the practical challenges around multi-occupied building (MOB) decarbonisation as an early focus area for work on disconnection and decommissioning that requires a collaborative approach.

Where HSE will ultimately be a key decision maker on whether projects can be implemented they should be included as part of the programme governance.

OVQ29. Do you agree with our proposals to retain the core aspects of the SIF for RIIO-3?

Yes. As noted in our Commentary we would ask Ofgem to ensure that the challenges include network preparedness for gas decarbonisation and other future-facing issues for the gas distribution networks.

We would also stress the importance of wide engagement with a range of stakeholders and transparent publication of findings (noting, for example, that there is no published report from

the DPLA SIF project that would have allowed us to engage more effectively in the debate around how this should be taken forward in GD3).**2. GD Annex Questions**

Outputs and incentives Infrastructure fit for a low-cost transition to net zero

GDQ1. Do you have any views on our proposed approach for the GD-specific environmental commitments, costs and targets?

We are pleased that in general the companies' costs and commitments related to their EAPs have been accepted. We comment on the rejection of the Cadent EAP Transition project in our Commentary (section 10) around RESP co-ordination and strategic planning

BCF Targets

We agree with Ofgem about the importance of the GDNs setting BCF targets on a consistent basis. We have always found it hard to compare performance on EAP metrics (not just among the GDNs) because of the use of different base years and scope.

Ofgem has asked the GDNs to agree a common methodology. While the SBTi has yet to agree a methodology for the oil and gas sector, and work on it has now paused[53], it is clear that any SBTi approved methodology would include leakage as a scope 1 fugitive emission (which accounts for c 95% of the GDNs' BCF). We would urge Ofgem to ensure that any final metric does include leakage (even at this stage while measurement of emissions is on a modelled basis). While it can be helpful to separate out the other elements for transparency, the GDNs' top level science based targets must include methane leakage.

Biodiversity

We are pleased that Ofgem has accepted the networks' proposals on biodiversity given the growing recognition of the interactions between climate and biodiversity.

We support Ofgem's encouragement of the networks to look at opportunities beyond those set out in their Business Plans, in co-ordination with biodiversity experts.

Shrinkage

We are pleased that Ofgem will be requiring networks to report measured emissions as the data becomes available, with a view to re-establishing a financial incentive in GD4. As we set out in our response to GDQ2 this will require active leadership from Ofgem given the variation in company plans around ALD / DPLA.

We note the targets that the companies have set but found it hard to reconcile the % figures in Ofgem's Table 4 with the volumes in Figure 5 (especially for SGN). This comparative information is helpful (provided it is correct).

We also note an implicit assumption that the gains made in reducing overall methane emissions through pressure management and gas conditioning will be maintained. We have a real concern that there are ongoing costs to maintain these gains and that having removed the financial incentive in this area there is a risk of companies back-sliding. We are reliant on Ofgem to engage in active monitoring of company performance in what is quite a technical area, to ensure that this is not the case.

[53] https://sciencebasedtargets.org/sectors/oil-and-gas

We are pleased that Ofgem continues to signal the availability of NZARD and NZASP funding to tackle methane emissions. As set out in our Commentary, we are concerned that the NZARD allowance remains at GD2 levels (increased for inflation) despite significant new activities such as methane emissions being included in its scope. We have asked Ofgem to review the cap to ensure that this area is sufficiently funded.

GDQ2. Do you have any views on our proposed funding for the DPLA and ALD?

As set out in our Commentary we see a need for Ofgem to put a much stronger emphasis on the imperative to reduce methane emissions given its net zero duty.

Building on the Methane Pledge, the UN's International Methane Emissions Observatory has been putting a strong emphasis on collecting data through satellite, drone and other technologies. The associated Oil and Gas Methane Partnership (OGMP) is working on ways to improve methane leak detection and reporting, recognising "If you can't measure it, you can't fix it". This applies not just to upstream gas production but to the regulated GB networks.

Activists using infra-red cameras were able to detect significant methane leaks at National Grid facilities in 2017[54] and, separately, leaks from the SGN pipeline near COP26 in Glasgow[55]. This demonstrates both the power of new technology and the importance of open and accurate reporting by the companies themselves.

In 2024, the EU adopted a Regulation[56] on methane emissions reduction in the energy sector which sets tighter standards for measurement, reporting and verification in line with the OGMP methodology and sets requirements for leak detection and repair. It also introduces a ban on venting and flaring, other than in exceptional circumstances. With the potential for this to extend to imports into the EU it is important to the GB context even post Brexit.

This global policy imperative to tackle methane emissions specifically and the potential for a technology-driven step-change is not mentioned in the Draft Determinations which position ALD as being driven by HSE requirements around condition monitoring. As a result, Ofgem risks coming across as being significantly behind the curve on the important area of reducing methane emissions.

While there will have been valuable learning from the DPLA project the findings were not available in time to inform the Business Plans and, as was clear from a recent Ofgem repex working group discussion on this topic, there are very significant differences in the scale and scope of what the GDNs have included in ALD, in particular on the frequency with which pipelines would be surveyed and whether fixed sensors and hand held devices were included.

Sustainability First has regularly raised the issue of emissions from **above ground installations** - which account for c20% of leakage - but which have received no focus to date because they are treated as a fixed component in the shrinkage and leakage model. We were therefore

[54] https://www.telegraph.co.uk/news/2021/10/23/national-grid-belching-leaked-methane-atmosphere/

[55] https://www.ft.com/content/c9c43e4f-c83e-42e4-a815-9266b970af7a

[56] EU Regulation on methane emissions reduction in the energy sector, adopted on 27 May 2024. https://www.consilium.europa.eu/en/infographics/fit-for-55-cutting-methane-emissions-in-fossil-fuels/

pleased to find that these are in scope for Cadent and WWU but concerned that they have not been explored by SGN.

While it may still make sense to fund ALD through baseline allowances Ofgem must be clear what is being delivered in each case – and we would argue for tailored PCDs to ensure that what is proposed is then delivered.

There is then also a need for some flexibility for other networks to include these other elements in scope or to extend the scale of the surveys, without having to wait for the full DPLA NZASP re-opener.

One significant frustration, as set out in the Commentary, comes from the fact that the financial incentives around reducing methane leakage have been progressively wound back over time. For GD3 there will be no ODI-F and at SSMC Ofgem proposed a UIOLI allowance for innovative approaches to emissions reduction which at Draft Determinations has been subsumed into NZARD (with no associated increase in funding). Given the differences in the scope of ALD between the networks and the strong focus on measurement internationally (likely to spur further technical innovations that could be adopted in GB) we see a continued strong case for NZARD funding as part of the package, with the NZARD cap increased accordingly.

Having regard to its own net-zero duty, Ofgem should make clear in Final Determinations that the industry needs to up its game in terms of improved detection and repair and to radically reduce methane emissions.

We are pleased that Ofgem is looking to the networks to start reporting shrinkage on a measured as well as a modelled basis, as a precursor to the inclusion of a more robust financial incentive in GD4. However, without Ofgem setting clear requirements across the networks we cannot see this happening.

GDQ3. Do you agree with our proposed design of the 7 and 28 Day Repair Standards ODI-F, including the proposed performance targets and incentive rate?

We see this as being a helpful step in reducing methane leakage.

GDQ4. Do you agree with our proposal to enable the GDNs to submit RESP coordination and engagement activities through NZARD and NZASP?

As set out in our Commentary the establishment of the RESPs is a major development in industry governance and the recent Ofgem consultation proposing new licence obligations on the GDNs makes clear that this will involve significant additional work. As such we would have expected that a certain level of baseline funding could be justified.

That said there is still uncertainty around what exactly will be required of the GDNs in terms of engagement and, we assume, significant new and far more granular data requirements. There would therefore seem to a clear role for uncertainty mechanisms. However, we would note that:

- NZARD funding - has been set at the same level as GD2 (updated for inflation) with RESP co-ordination and methane emissions added as two significant new activity areas. We urge Ofgem to review the cap to ensure that these can be adequately funded;

- NZASP funding - Ofgem rules out "strategic planning" (which it sees as the role of NESO) but allows "RESP co-ordination". Given NESO's early focus will be on electricity and given its limited experience to date on gas distribution we can envisage the GDNs playing a substantive role within GD3 timescales, albeit ultimate responsibility sits with NESO. We urge Ofgem to work with the GDNs and NESO on ensuring that the NZASP scope is flexible enough to cover this situation. Given the nature of the re-opener Ofgem does not need to be too prescriptive at this stage over exactly what is in scope.

High quality of service from regulated firms

GDQ11. Do you agree with our proposed design of the VCMA UIOLI mechanism?

See our Commentary para 13. We welcome the increase in funding for the VCMA.

We consider that inclusion of an element of funding in the baseline sends the right signal that this is a core business activity. However, we are concerned that faced with competing pressures in GD3 there is risk of companies cutting back on activity in this area. We would like to see a licence condition to deliver on these BAU activities to help in ring-fencing that funding.

GDQ12. Do you agree with our proposed design of the Customer Satisfaction ODI-F?

Given the expected reduction in connection volumes in GD3 we would have thought that it would make sense to reduce the weighting given to them as part of the overall customer satisfaction ODI-F. While we are aware that they will drop out automatically once the threshold number of surveys ceases to be met, until that point they would seem to be being given more weight than is justified.

GDQ13. Do you agree with our proposed design of the Disconnections Customer Satisfaction ODI-R?

Over GD3 we expect the volume of disconnections to grow and for this to become an increasingly important area of customer service for GDNs (although volumes remain uncertain). We therefore welcome the inclusion of an ODI-R to ensure GDNs give adequate focus to it. However, we have flagged previously the need to see disconnections in the round. Customers initial contact will most likely be with their supplier and it is the end-to-end customer experience that matters.

As such we agree with this being included as a reputational ODI, not financial at this stage, and support Ofgem's proposed cross-company comparison in their annual report. However, customer satisfaction on disconnections will reflect the overall process - not just the GDN element (especially so for safety disconnections) – and Ofgem must find a way to address this. Further work is needed as part of Ofgem's disconnections project to look at this process in the round, before committing to an ODI-F in GD4.

GDQ20. Do you agree with the introduction of the proposed Biomethane Connections UIOLI, including with the proposed scope and funding caps?

As set out in our Commentary we see biomethane as an important way of reducing near tern carbon emissions and would urge Ofgem to present a clearer future-facing narrative for GD3 which includes a growing role for biomethane. We note that FES 2025 includes a significant increase in biomethane in the system over the GD3 period, with 65TWh anticipated by 2050. We also note the numerous references to biomethane in the Clean Flexibility Roadmap[57].

From the Draft Determinations we are unclear what the role of the UIOLI allowance is and are concerned that its focus on connection costs and the restrictions on eligibility to those developers not receiving Green Gas Support Scheme funding, position it as simply an alternative to the GGSS which would therefore have no additional benefit.

We encourage Ofgem to engage with GDNs, DESNZ and wider stakeholders to clarify the scope of the UIOLI in a way that is likely to deliver the most benefit to the sector, perhaps by funding reinforcement or other related activity.

We are also aware that, for example, SGN has some valuable initiatives to help drive biomethane connections and the rate of injection, as well as seeking to avoid the need for propanation (the addition of propane to meet required standards for calorific value). Ofgem has proposed that this be covered by baseline funding but we would urge Ofgem to make clear how other networks could fund such activities or how SGN could take forward any other initiatives (such as reverse compression) if needed to meet increasingly stretching GB targets over the course of GD3.

We note that Ofgem has also highlighted the need for a more co-ordinated and consistent approach to biomethane connections across the networks and has asked that they report on progress through their AERs. As we have flagged elsewhere there are issues with the AER as an effective reputational incentive and in particular for collaborative work like this it is important that Ofgem retains an active role in overseeing progress.

GDQ21. Do you have any views on our proposed design of the Heat Policy Re-opener?

In our work on the Future of Gas we have consistently highlighted the very significant uncertainties that remain around heat decarbonisation – not simply on the question of hydrogen for heat.

The proposed heat policy re-opener would seem sufficiently broad to cover potential changes (in combination with other volume drivers on disconnections and other net zero uncertainty mechanisms to deal with biomethane).

However as set out in our Commentary, Ofgem needs a much clearer future-facing narrative that looks across the landscape at upcoming policy consultations (at a UK and devolved level) and sets out clearly how they are being addressed.

[57] https://www.gov.uk/government/publications/clean-flexibility-roadmap

Secure and resilient supplies

GDQ22. Do you agree with our proposed scope of the HSE Policy Re-opener?

As set out in our Commentary and our January Response, safety and the HSE's requirements are the major cost driver for the gas networks. The HSE Policy Re-opener focuses purely on formal changes to regulations but there would seem to be many areas highlighted through the Draft Determination where there is uncertainty around the interpretation of HSE requirements. This may reflect changing attitudes as the context changes (on eg gas disconnections) or simply different expectations by different local inspectors.

A major theme of our Commentary and our Response is the need for a strategic dialogue involving Ofgem, DESNZ and the HSE around future safety requirements, with urgent discussions needed to resolve some of the uncertainties that are highlighted in the Draft Determination.

Given this, to simply focus on formal rule changes feels potentially too restrictive – but equally a much broader scope risks leaving customers carrying all the risk. We encourage Ofgem to talk with the networks and the HSE about whether there is any middle course.

High quality of service from regulated firms

GDQ25. Do you agree with our proposed design and unit rates for the Safety Disconnections Volume Driver?

As set out in our Commentary, we are disappointed at the slow progress made by Ofgem's parallel work on disconnections which means there is still very significant uncertainty around unit costs for this volume driver (with a unit cost range quoted of £300-£1800). We note the recent RfI that has been issued but are concerned that absent a proper understanding of past and future HSE expectations in this area, the large volume of granular information that Ofgem has requested will be meaningless.

Given the significant uncertainty around future disconnection volumes, we support the use of a volume driver. However, careful thought is needed on the design in order both to drive efficiency and to encourage the GDNs to come forward with their best views of disconnection costs. For example, assuming a credible volume of disconnections to be funded through baseline - and which may then be adjusted up or down - would reduce the incentive for GDNs to over- or under-estimate the cost per disconnection.

On 'legacy' disconnections, we share Ofgem's concern that these not be funded twice-over via successive price-controls though we can also see that this is a complex matter relating to HSE clarifications 'currently being reviewed'. In line with our broader comments on HSE issues we would highlight the need for Ofgem strategic engagement with the HSE, to understand whether and how HSE expectations may have changed.

Finance Annex

Regulatory Depreciation

FQ24. What are your views on our proposal to accelerate depreciation for new assets only in GD and is there any further evidence you would like us to consider before we reach a final decision?

As set out in our Commentary we welcome Ofgem taking a cautious but proactive approach to accelerated depreciation through the depreciation of all new assets by 2050. With customer numbers set to decline steadily over the coming decades this is crucial to ensuring inter-generational equity – in particular as those least able to afford to move to low carbon heating will otherwise be left picking up an undue share of the burden of historic costs.

Ofgem's estimate of the cost as being an additional £8 p.a. by 2031 feels to us to be striking the right balance between the affordability challenges facing customers today and the need also to protect future consumers. We also note the sensitivities which Ofgem notes in its IA - on this and certain other inputs to its cost estimates of possible future bill impacts.

We are aware that companies will be discussing the proposed totex figures with Ofgem and providing more evidence in certain areas. It is possible on this basis that totex allowances will increase and feed through into higher bills. Within the range of likely adjustments this would not impact our view that the £8 p.a. additional depreciation charge is reasonable.

Gas Transmission

Greenhouse Gas Emissions (compressor) ODI-F

GTQ2. Do you have any views on the proposed design of this incentive?

GTQ3. Is the yearly reduction in the target tonnes of carbon preferable to a target which remains constant throughout the price control?

At SSMD Ofgem noted the "overwhelming stakeholder support" for reducing methane emissions and also acknowledged the argument that ultimately venting should not be allowed, other than in exceptional circumstances.

We are pleased that in Draft Determinations Ofgem has gone for a more ambitious target on compressor venting than proposed by NG "*taking into account the adoption of new technological improvements and the increasingly more stringent European standards on compressor venting*".[58]

Given this context we support a target that reduces over time but question whether the levels of venting still envisaged by the end of GD3 are in line with international best practice. We would ask Ofgem to signal the potential for significantly more stringent targets in GT4.

[58] EU Regulation on methane emissions reduction in the energy sector, adopted on 27 May 2024. https://www.consilium.europa.eu/en/infographics/fit-for-55-cutting-methane-emissions-in-fossil-fuels/

We note that the design of the incentive is based on the government's cost of carbon which we support. However, the other critical element here is the GWP[59] of methane (relative to carbon dioxide). Because methane is a short-lived greenhouse gas its warming impact in the short term is much higher – which is why a focus on methane reduction offers the opportunity to reduce the stock of greenhouse gases in the atmosphere, helping avoid climate tipping points.

In calculating the incentive rate Ofgem will have used the GWP100 for methane of 28[60], in line with standards for international emissions reporting. However, there is a strong argument that viewed against the requirement to meet net zero by 2050 and in valuing the impact of marginal changes, the GWP20 (of 86) is more appropriate. This would strengthen the incentive on NG to reduce methane emissions and ultimately to move to a position where it no longer vents other than in exceptional circumstances. We would encourage Ofgem to discuss this issue with DESNZ and CCC colleagues.

Greenhouse Gas Emissions (pipeline) ODI-F

GTQ4. Do you have any views on the proposed design of this incentive?

GTQ5. Do you think the limited life of this incentive is appropriate?

GTQ6. Would you support a penalty only incentive in succeeding price controls?

We support the inclusion of an incentive in this area to focus attention on an additional source of methane emissions. We agree that investments that have been separately funded should be out of scope.

As set out in our response to GTQ2 and 3 we would question whether the target reduction is ambitious enough in the context of changing international standards. We would also encourage Ofgem to look at the GWP used in setting the incentive rate.

We are unclear about the arguments for how the incentive might evolve in future price controls – whether the "BAU" rate will be ambitious enough in relation to international best practice and whether there are ongoing costs in maintaining that level.

While the ODI will only apply at the end of GT3 we assume that data will be collected over the GT3 period that can be used to inform the evolution of the incentive for GT4.

Greenhouse Gas Emissions (fugitive) ODI-R

GTQ7. Do you have any views on the proposed design of this incentive?

GTQ8. Do you consider it appropriate that the incentive is reputational rather than financial?

GTQ9. Do you have views on potentially introducing this incentive as a financial incentive in RIIO-GT4 should National Gas show consistently good performance in RIIO-3?

[59] Global Warming Potential

[60] Based on IPCC AR5 which also makes clear that the choice of metric should depend on the use to which it is being put. See also https://www.ccacoalition.org/short-lived-climate-pollutants/methane

We welcome the inclusion of this ODI-R to incentivise the Gas System Operator to identify and repair defects on the NTS more effectively year on year.

We are content with this being an ODI-R for GT3 while NG works to understand the scale of the opportunity and any measurement issues. We would support this becoming an ODI-F in GT4, in principle, subject to any lessons learned.

NTS Shrinkage Review

GTQ11. Do you agree with the proposed scope of the NTS Shrinkage Review?

The scope makes sense and hopefully will identify any further opportunities for reducing methane emissions.

We note from Ofgem's summary of the EAP that in terms of their BCF National Gas has committed to "*reducing methane emissions by 90% from the 2022/23 baseline, from leaks, venting and operating assets on the NTS. ..[and] has committed to enhancing leak detection capabilities through innovative digital platforms, if viable*". This 90% figure appears very high in the context of the targets that are being set for the ODI-Fs and there is a strong sense that NG does not yet have a handle on its current emissions which makes this figure potentially misleading. We would ask that for Final Determinations Ofgem sets out more clearly what the overall impact of the range of incentives and funding is expected to be on NG's methane emissions.

Network Decarbonisation Re-opener

GTQ29. Do you have any views on the proposed Network Decarbonisation and Emissions Compliance Re-opener and PCD funding mechanism?

We support the inclusion of this re-opener which is aimed at enabling actions to reduce the carbon impact of NG's operations, including additional steps on reducing methane emissions through new technology such as zero loss seals for compressors, dry seals, recompression technology and flaring rigs.

We are however struck at the much greater emphasis being placed on such actions at transmission level compared to distribution where current methane emissions are markedly higher. We would ask that Ofgem adopts a more consistent approach and also that knowledge sharing is encouraged between NG and the GDNs (and the relevant Ofgem teams) in this important area.