

RIIO-GD2

Strategic Commentary

2024-2025

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1 Chief Executive's Update



The 2024/25 reporting year marks the fourth year of the RIIO-GD2 price control period. Against a backdrop of continued economic uncertainty and evolving regulatory expectations, we have delivered strong operational, financial, and strategic performance, reinforcing our position as the frontier gas distribution network in the UK.

Over the last year our business has remained steadfast in supporting customers through targeted initiatives such as the Vulnerability and Carbon Monoxide Allowance (VCMA), the Community Partnering Fund, and the Customer Support Fund. We have provided both immediate crisis support and embedded long-term solutions to support the most vulnerable in our region. We have maintained our focus on an outstanding customer experience achieving a customer satisfaction score of 9.3 and maintaining industry-leading performance in emergency response, with 99.9% of uncontrolled gas escapes attended within one hour.

We have also performed strongly against our biggest area of work, the iron mains replacement programme, delivering 447.7km of Tier 1 mains abandonment, which is 10.5km above our target and brings our output to 83.3% of the RIIO-GD2 target. This proactive approach supports safety, reduces methane emissions, and puts us in a strong position for RIIO-GD3. This year also marked the completion of our gasholder demolition programme, and we made significant progress on capital projects, including the TransPennine Electrification diversions.

Commensurate with our industry leading performance, financial performance remained strong in 2024/25, demonstrating that high performing companies can deliver fair returns under the RIIO-GD2 contract. Return on Regulatory Equity (RORE) was 5.82%, with a forecast average of 6.17% over RIIO-GD2. Totex outperformance for the year was £1.3m, with cumulative outperformance of £86.0m. Our Repex costs exceeded our allowances due to increased workload and inflationary pressures, however, Opex and Capex remained below allowances, reflecting disciplined cost control and efficient delivery.

I am proud of our continued collaboration and leadership across the sector on innovation and future energy planning. Key initiatives include:

- East Coast Hydrogen: A 15-year infrastructure project to create a regional hydrogen backbone.
- Futures Close Heat Programme: A pioneering testbed for low-carbon domestic heating solutions.
- Project Helix: Development of the world's first wearable carbon monoxide detector.
- Navigator: A whole-system energy planning tool to support regional decarbonisation strategies.

The initiatives, delivered collaboratively with a range of partners, will ensure we are well positioned to respond to the current uncertainty on energy policy and target customer centric solutions as policy develops.

Environmental initiatives remain a central focus of NGN's operational performance and strategic planning, and we continue to make significant progress in reducing our environmental impact, with a 6.5% reduction in total greenhouse gas emissions and zero excavation spoil sent to landfill for the second consecutive year.

As we look ahead, I am incredibly excited about building on the challenging work delivered by our colleagues throughout the network this year. We remain resolute that continuing to deliver on our core safety, environmental and customer commitments is absolute and the only way to meet net zero targets is through a whole systems approach.

Ofgem's recent Draft Determination on our RIIO-GD3 business plan reaffirmed NGN's frontier status and rewarded our exceptional track record of delivery. We will continue to engage with Ofgem to support and help further develop its methodology to ensure that we secure the necessary funding to continue to deliver the outstanding level of service and long-term value that we've maintained throughout RIIO-GD1 and RIIO-GD2 to date.

Mark Horsley, Chief Executive Officer

2 Board Statement



The Board remains committed to ensuring Northern Gas Networks operates with the highest standards of compliance, transparency and accountability. Throughout 2024/25, we maintained robust internal and external assurance processes, aligned with industry best practice, to uphold the integrity of our reporting and regulatory obligations.

Our strategic priorities continue to focus on delivering a safe, reliable and affordable gas network while preparing for a low-carbon future. We have supported significant investment in innovation, infrastructure, and workforce capability to ensure long-term resilience and value for customers. This includes advancing our net zero ambitions, enhancing cyber resilience, and maintaining strong performance for customer service and safety.

We are pleased with NGN's exemplary track record in delivering against output targets agreed as part of the RIIO-GD2 regulatory contract. Incentive arrangements for the senior management team are directly linked to the safety, customer and efficiency targets within the regulatory contract. These targets are reviewed and updated annually.

The Board will continue to provide oversight and challenge to ensure NGN maintains and seeks to improve its sector leading performance, governance, and strategic delivery of its commitments.

Andrew Hunter, Chairman

Performance Summary

3 Performance Summary

Outputs Summary	
Meeting the needs of consumers and network users	
Consumer vulnerability minimum standards	
Number of Fuel Poor connections	
Complaints metric	
Guaranteed standards of performance	
Emergency response – 97% controlled gas escapes	
Emergency response – 97% uncontrolled gas escapes	
Loss of supply – duration of unplanned interruptions	
Planned interruptions survey (score out of 10)	
Emergency response and repair survey (score out of 10)	
Connections survey (score out of 10)	
Maintaining a safe and resilient network	
Repex – tier 1 mains replacement	
Repex – tier 1 services	
Capital projects	
Delivering an environmentally sustainable network	
Shrinkage and environmental emissions	
Biomethane connections information	
Environmental action plan and annual environmental report	
Business Carbon Footprint (BCF) reporting	
Carbon Monoxide Awareness	

Table 1 – Performance Summary

We delivered 5.5km more Tier 1 mains replacement work than forecast last year (10.5km above target), our second highest delivery year in RIIO-GD2 to date after 2023/24. We will continue to deliver workloads to recover the shortfall caused by the Covid-19 pandemic.

Our Scope 1 and 2 Business Carbon Footprint (BCF) (excluding shrinkage) has remained stable, but it remains above our ambitious targets set in 2019, mainly due to a lack of available suitable electric vehicles which can meet the requirements for our operational fleet. This position is not recoverable over RIIO-GD2. Despite this, our total greenhouse gas emissions are on track and reduced by 6.5% year on year, driven by significant gas leakage reduction, more than compensating for our BCF performance.

Financial Summary £m, 18/19 prices	21/22	22/23	23/24	24/25	25/26
Regulatory Asset Value	2,264	2,294	2,323	2,350	2,382
Allowed Revenue	384.6	509.1	456.6	408.0	444.0
Return on Regulatory Equity	7.07%	6.94%	5.79%	5.82%	5.30%

Table 2 – Financial Summary

The Regulatory Asset Value (RAV) increases year on year in line with expectations as we continue to invest in our assets. Allowed Revenue includes £81m and £21m for Supplier of Last Resort charges incurred in 2022/23 and 2023/24 respectively. The Operational Return on Regulatory Equity reduces throughout the price control.

Totex Incentive £m, 18/19 prices	21/22	22/23	23/24	24/25	25/26	Total
Actual costs	214.9	220.9	242.6	248.7	264.1	1,191.2
Adjusted Allowances	258.9	259.9	247.0	247.4	256.0	1,269.1
Outperformance	(44.0)	(39.0)	(4.4)	1.3	8.2	(77.9)
Outperformance %	(17.0%)	(15.0%)	(1.8%)	0.5%	3.2%	(6.1%)
Return to customers	22.4	19.9	2.2	(0.7)	(4.2)	39.7

Table 3 – Totex Incentive

We spent 0.5% more than our allowances this year due to an increased workload and associated cost pressures, this set against a reduced allowance led us to spend more than the current in-year allowances over the remainder of RIIO-GD2. Overall, our controllable Totex forecast has fallen by 0.8% compared to last year, but our allowances have increased by 1.6% due to re-openers, Ofgem corrections and real price effects.

Other Incentives £m, 18/19 prices	21/22	22/23	23/24	24/25	25/26	Total
Customer service	1.4	1.6	1.6	1.7	1.7	8.0
Complaints	-	-	-	-	-	-
Unplanned Interruptions	-	-	-	-	-	-
Environmental Emissions	(0.3)	0.4	0.4	0.4	0.3	1.3

Table 4 – Other Incentives

We expect to maintain our customer service performance until the end of RIIO-GD2, securing a £8.0m incentive for customer satisfaction by the end of the regulatory period. We also expect to pay zero penalties under the Complaints and Unplanned Interruptions Incentive. We have recovered our position on Environmental Emissions from 2021/22.

Financial Performance

4 Financial Performance

4.1 Return on Regulatory Equity

Ofgem use the Return on Regulatory Equity (RORE) to measure the financial returns or penalties on the portion of the value of the company that is financed by equity. RORE is calculated by using the cost of equity (Allowed Equity Return) as the starting point as this amount is funded directly in revenue. The cash value of any outperformance from the incentive mechanisms is then divided by the 40% notional equity portion of the Regulatory Asset Value to calculate the additional return on equity earned.

Return on Regulatory Equity	21/22	22/23	23/24	24/25	25/26
Allowed Equity Return	4.52%	4.56%	5.28%	5.59%	5.45%
Totex outperformance ¹	2.40%	2.09%	0.22%	(0.07%)	(0.43%)
Business Plan Incentive	0.13%	0.13%	0.13%	0.13%	0.12%
Customer Satisfaction Survey	0.15%	0.18%	0.17%	0.19%	0.19%
Complaints metric	-	-	-	-	-
Unplanned Interruption Mean Duration	-	-	-	-	-
Shrinkage Management	(0.03%)	0.05%	0.05%	0.04%	0.04%
Network innovation	(0.02%)	(0.02%)	(0.03%)	(0.03%)	(0.03%)
Carry-over Network innovation	(0.02%)	-	-	-	-
Strategic innovation	-	-	-	-	-
Penalties and fines ²	(0.07%)	(0.04%)	(0.03%)	(0.03%)	(0.04%)
RoRE – Operational performance	7.07%	6.94%	5.79%	5.82%	5.30%

Table 5 – Return on Regulatory Equity

Our operational RORE starts at 7.07% and reduces over the price control to 5.30%, an average of 6.17% and slightly higher than the 5.95% forecast last year due to increased Totex outperformance. After the Allowed Equity Return, the main driver is the Totex incentive mechanism. We expect our out-performance against the Totex allowances to reduce over time, partly due to workload movements, but also due to the tightening of the allowances, which includes a very stretching efficiency assumption. In addition, allowances have increased by 1.6% relative to last year on a 2018/19 price basis, mainly driven by additional

¹ Calculated differently to other tables (NGN TIM share, RAV disposals & Net Zero UIOLI)

² Penalties and fines relate to the 14 areas of Guaranteed Standards of Service (GSOS), with the largest 24/25 payment of £120k being for Regulation 10A in relation to notification of planned supply interruptions.

re-openers for East Coast Hydrogen and Cyber Resilience. We expect to earn further rewards under the Customer Satisfaction Incentive, whilst the Shrinkage Management Incentive is forecast to be a slight positive over the price control. It should be noted that RORE is draft until finalised in the Regulatory Financial Performance Report (RFPR) published in September.

4.2 Revenue and Customer Bills

Allowed Revenue

At the beginning of the price control Ofgem set our Base Revenue, assuming we deliver in line with the allowed costs and workload. Our Allowed Revenue is then calculated based on our actual cost and workload performance and is used to set customer bills. However, because of movements in customer numbers and levels of consumption, our Collected Revenue for that year is unlikely to match the Allowed Revenue exactly. Any under or over collection, which should be minimal, is adjusted for in the following years' Allowed Revenue.

In addition to our Local Distribution Zone (LDZ) Revenue, the gas networks collect revenue to pay for the National Transmission System (NTS) Exit Capacity charges, and the Supplier of Last Resort payments. These are pass-through costs – the gas networks have no control over the charges and simply collect the revenue to be passed on. However, they are a significant part of the end customer's bill.

Our average LDZ Allowed Revenue for RIIO-GD2, falls in real terms to £386m, a 10% reduction from the RIIO-GD1 average of £429m, reflecting the challenging nature of the RIIO-GD2 settlement. NTS Exit Capacity charges increase from an average of £8m in RIIO-GD1 to £34m in RIIO-GD2. We have collected c.£102m in Supplier of Last Resort Payments in years 2 and 3 of the price control, followed by a number of marginal true ups of the Last Resort Supplier Payment (LRSP) claims made by the relevant suppliers of last resort in years 4 and 5.

Customer Bill Impact

The amount each customer pays through their bill is driven by three factors – Allowed Revenue for the year in question, changes in the number of customers, and changes in the level of peak day gas consumption for these customers. For instance, if the number of customers increases for a fixed allowed revenue, then each customer would pay proportionally less.

Our domestic customer bill analysis shown below is calculated using NGN's average Annual Quantities (AQ) consumption and peak daily capacity requirements.

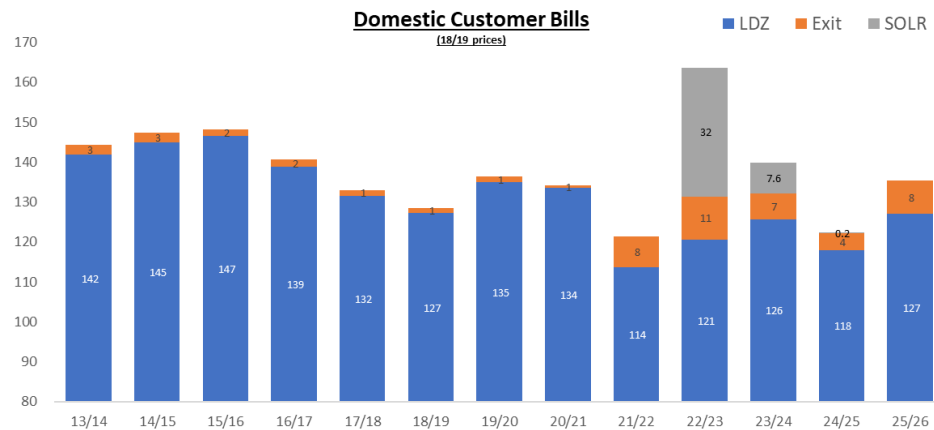


Figure 1 - Domestic Customer Bills

The average RIIO-GD2 LDZ domestic customer bill falls to £121, a 12.6% reduction from the RIIO-GD1 average of £137. This reduction is smaller than the reduction in Allowed Revenue, due to changing gas consumption. Exit costs increase significantly from £2 to £7 on the bill. Supplier of Last Resort (SOLR) payments increased the bill by £32 and £8 in 2022/23 and 2023/24 respectively followed by a negligible charge in 24/25 and a small return to customers in 25/26.

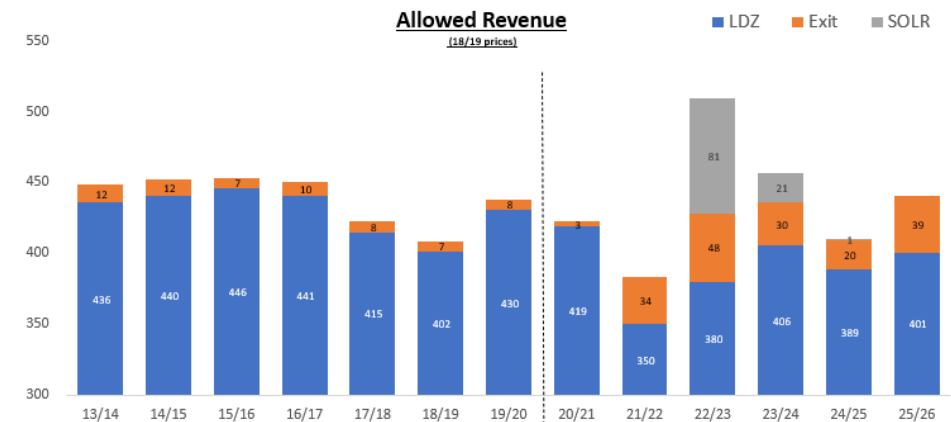


Figure 2 – Allowed Revenue

5 Our performance against the allowances

5.1 Totex performance

Totex	21/22	22/23	23/24	24/25	25/26	Total	Allowed	Variance
Opex	73.9	85.7	93.0	94.5	97.4	444.5	494.2	(49.7)
Capex	40.3	39.4	45.8	52.4	66.1	243.9	272.0	(28.1)
Repex	100.7	95.8	103.8	101.8	100.6	502.8	502.9	(0.1)
Totex	214.9	220.9	242.6	248.7	264.1	1,191.2	1,269.1	(77.9)
Allowance	258.9	259.9	247.0	247.4	256.0	1,269.1		
Variance	(44.0)	(39.0)	(4.4)	1.3	8.2	(77.9)		
Cumul. Variance	(44.0)	(83.0)	(87.3)	(86.0)	(77.9)			

Table 6 – Totex Performance

This year we spent £1.3m more than the Totex allowance.

Controllable Opex saw a total underspend against allowances of £0.7m:

- Higher than expected Work Management costs resulted in a £5.9m overspend against the allowance. This was due to workload commitments delivering the Annual Maintenance Plan (AMP), non-routine activities, additional contractor resourcing to support direct labour and increased energy costs in Network Maintenance. These were offset by lower-than-expected costs in Emergency and Repair associated with good management of 28-day escapes, and fewer PREs.
- Lower than expected costs in Business Support and training resulted in an underspend against the allowances of £2.6m due to efficient development of the RIIO-GD3 plan by utilisation of internal resource, minimising external consultancy expenditure. Costs are expected to increase in the final year of RIIO-GD2 as we continue our investment into Cyber Security and associated resource as well as relocate some of our operational support functions to new depots.
- Good delivery controls by the Major Projects and Environment teams resulted in an underspend against the allowances of £4.0m on the Gasholder Demolition and Land Remediation programmes and other direct activities.

Capex saw an underspend against allowances of £3.3m:

- LTS, Storage & Entry - £0.5m underspend. The main contributor to this was delays in starting work on some of the major projects associated with the Network Rail driven TransPennine Electrification project, which resulted in an underspend of £1.9m. This was offset by an overspend in asset health related spend due to the phasing of projects and Covid-19 catch-up from the start of RIIO-GD2.
- Reinforcement - £1.7m underspend. Lower than expected workload largely due to minimal enquiries from large load energy producers.
- Other Capex - underspend of £3.2m. Reduced expenditure on IT & Telecoms contributed a £1.2m underspend as we continue to see benefits from our insourcing strategy. This was offset by vehicle overspend due to accelerated deliveries, achieving a two-year fleet refresh after global supply chain delays early in RIIO-GD2, prolonging the use of ageing vehicles.
- Connections £0.3m underspend. The allowances have been amended in 24/25 to reflect changes as agreed with Ofgem.
- Governors – Overspend £2.6m. Governor site upgrade programme continued, ensuring our district governors and sites are safely secured.

Repex experienced a £5.3 million overspend, attributed to increased workload delivery on Tier 1 mains as we continue to exceed annual forecasts to ensure delivery of all workload targets across Tiers in RIIO-GD2. Annual average allowed workload is 428.9km with a target (inclusive of 42.5km of Covid-19 shortfall recovery) of 437.3km. 447.8km of Tier 1 mains were delivered in the year which is 10.5km above target and 5.5km above forecast. After 4 years of RIIO-GD2, 83.3% of our Tier 1 Mains work has been completed. We also continued our Tier 1 Stubs programme which does not have an allowance in years 3-5 of RIIO-GD2.

Overall, our Repex programme is still experiencing ongoing delivery cost challenges due to macroeconomic factors which we actively look to mitigate through our Direct Service Provider model and efficient end-to-end Repex processes.

5.2 Opex performance

5.2.1 Controllable Opex

Controllable Opex (2018/19 prices)	21/22 Actuals	22/23 Actuals	23/24 Actuals	24/25 Actuals	25/26 Forecast	Total Forecast
Holder Demolition	3.1	4.2	2.8	1.6	0.3	12.0
Env. Remediation	0.4	0.3	0.4	0.4	1.9	3.4
Other Work Mngt	10.3	12.9	14.3	15.0	12.7	65.3
Work Mngt	13.9	17.4	17.5	17.0	14.9	80.7
Emergency	9.0	10.2	10.0	10.2	11.7	51.2
Repair	14.3	17.0	16.1	15.6	17.4	80.5
Maintenance	12.9	15.2	20.6	22.9	21.5	93.1
Other direct activities	3.1	3.1	3.8	2.5	3.2	15.7
Work Execution	39.4	45.5	50.5	51.2	53.9	240.5
Business Support	18.7	20.1	21.2	21.7	24.3	106.1
Training/ Apprentices	1.9	2.7	3.8	4.5	4.3	17.3
Total Costs	73.9	85.7	93.0	94.5	97.4	444.5
Final Allowance	98.5	97.2	94.9	95.2	108.4	494.2
Variance	(24.6)	(11.5)	(1.9)	(0.7)	(11.0)	(49.7)
Cumulative Variance	(24.6)	(36.1)	(38.0)	(38.7)	(49.7)	

Table 7 – Controllable Opex

Our Controllable Opex costs were £94.5m this year, £1.5m higher than 2023/24. This continues to be more in-line with our business plan as activities and costs have increased since the Covid-19 pandemic. We have seen a significant increase in maintenance costs within work execution, as we have caught up on the Annual Maintenance Plan (AMP) as well as investing additional resources to deliver work to provide long-term resilience and reduce the age profile in this part of the business. Additional costs have also been incurred on our apprentice programme as part of our strategy to replenish skills and experience within our workforce. We expect to outperform the 5-year Final Allowance (workload adjusted and including forecast RPEs) by £49.7m.

Work Management and Work Execution

Gasholder Demolition and **Land Remediation** costs can vary materially by size, condition and other site factors. This year we finalised the Gasholder Demolition programme by deconstructing and removing the last three holders, two less than last year, with the last of the holders removed in March 2025. This results in lower expenditure relating to residual works for the remainder of RIIO-GD2 and an outperformance against our plan through efficient delivery of the programme. We spent £0.6m less than our Land Remediation forecast this year and £0.3m less than allowances, however we expect the work on these complex projects to increase in the last year of RIIO-GD2, resulting in us completing our planned work over RIIO-GD2 in line within our allowance.

We spent £4.2m on **Asset Management** this year, £0.2m above the £2m assumed in our business plan. We expect to spend the same in the final year of RIIO-GD2.

We spent £0.5m on **System Control** this year, consistent with the previous year and expect costs to remain the same for the final year of RIIO-GD2. This is below our business plan forecast. We now flex the resource in this area to support other asset management activities to increase efficiency and maximise output across Totex.

Under our Totex operating model **Operations Management**, **Customer Management**, **Emergency** and **Repair** costs can all be affected by the relative level of workload across Opex, Capex and Repex. In Opex, the main workload drivers are the volume of Publicly Reported Escapes (PREs) and repairs we see in the year.

Workload	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Forecast PREs	90,529	89,869	89,234	88,626	88,041	87,480	86,942
Forecast Repairs	20,199	19,551	18,838	18,153	17,497	16,866	16,260
Actual PREs	74,948	70,115	67,770	69,945	68,203	68,248	-
Actual Repairs	17,317	17,794	19,482	20,658	18,835	18,785	-

Table 8 – Workload Summary

Expenditure in **Emergency** and **Repair** has reduced to £25.8m this year compared to £26.1m in 23/24.

Emergency costs have increased by £0.2m to £10.2m, this includes 23 additional engineers recruited to date in RIIO-GD2 to improve resilience and a move towards Health and Safety Executive fatigue requirements. PRE workload in the year was 22% below forecast due to a mild winter. Our forecast of increased costs for the remainder of the period are based upon a typical winter where the ability to support wider Totex delivery through stranded resource is limited.

Repair costs reduced by £0.5m as Repair volumes were in line with the previous year but continue to be above our forecast due to ageing network and associated increase in ratio of PREs to Repairs. We have maintained our strategy of realigning resource from other areas where customer driven workload has fallen – connections, fuel poor and service alteration work - to reduce the number of outstanding escapes, as well as align resource to wider Totex workstreams through utilisation of our productivity metrics and insight. We expect repairs to gradually trend down over time because of the Repex programme, but not necessarily every year as other factors such as weather and asset performance will influence the overall workload. We have benefited from reduced transport costs due to the procurement of new operational vehicles, replacing ageing fleet.

Our forecasts for Emergency and Repair are consistent with last year, including the extra costs associated with meeting the Health and Safety Executive fatigue requirements. A re-opener submission for an increase in allowances to cover this was made in September 2024.

Our Repair forecast is also based on a 'normal' winter workload compared to the mild winters experienced in RIIO-GD2 to date. We expect to outturn lower than our forecast when weather is milder but cannot assume this as we must plan resource and costs to meet any potential for an extreme in line with workload to ensure gas escape and repair standards are achieved during winter.

We spent £1.6m less on **Operations Management** this year and remained in line with forecast. The main driver was a £1.3m reduction in payments associated with the Incremental Pensions Deficit. We expect expenditure to be marginally higher than previously forecast to support the increased maintenance workload referenced below.

We spent the same on **Customer Management** this year and expect to spend in line with our plan for the remainder of RIIO-2, which assumes a 'normal' winter workload.

We spent £2.3m more on **Maintenance** this year, a £11.6m increase on the annual cost since 2020/21. Maintenance encompasses wider activities beyond core asset maintenance, and includes survey activities conducted by regional teams, gas connection alterations, disconnections and capital activities that are treated as opex for regulatory reporting. Annual costs are higher than in our RIIO-GD2 business plan, which outlined our strategy to increase maintenance activities in several areas to ensure compliance and asset health. Extreme climate conditions are having greater impacts on NGN's assets across the network, environmental resilience is more important than ever and will become a key part of our activities going forward.

This year's costs included an additional £2.9m associated with the continued work on our district governor sites to extend their operational life and ensure compliance with IGEM/TD/13 Edition 3 (Pressure regulating and exceeding 7 bar pipeline installations). There were additional costs associated with remedials as an output of our in-line inspections programme which now uses new technology on our 4" high pressure pipelines. These additional costs were offset by a £0.6m reduction in Utility costs on our asset sites following the Energy Crisis which resulted in a dramatic increase in costs over the last 3 years.

Our forecast for Maintenance has consistently embedded the acceleration of workload following the impact of Covid-19 pandemic to maintain compliance across the network and that additional resources and costs would be required to achieve 'steady state' by end of RIIO-GD2 across all key asset maintenance workstreams. This has resulted in a significant recruitment programme being undertaken in RIIO-GD2 to adequately resource all work activities and remove reliance on contractors to ensure our ability to deliver the programme into future regulatory periods. We do expect Maintenance costs to reduce in the final year of RIIO-GD2 by £1.5m following peak expenditure this year.

We spent £0.5m less on **Other Direct Activities** than forecast, £1.3m lower than last year. Prior year costs included increased spend on overcrossing remedials, asset decommissioning and several incidents which have reduced this year. Costs in this area can vary year on year, driven by non-routine activities, the number of district incidents we encounter and our success at recovering costs from third parties if they caused the incident. Our plan continues to be based on the long-term average costs for this area.

Business Support and Training and Apprentices

There was a marginal increase on **IT and Telecoms** this year due to increased usage and licences with our telecommunications, online equipment marketplace and expense management providers. We expect the annual cost to continue to increase due to licence usage and various vendor price rises, despite this we expect to be within our planned cost across the RIIO-GD2 period.

Our **property** costs have reduced by £0.2m this year and are £0.2m below forecast. This is due to a reduction in utility costs following the energy crisis in the previous year. Costs are expected to increase in the final year of RIIO-GD2 due to dilapidation costs relating to our exit from our Hull depot in East Riding of Yorkshire.

Our **Human Resources** costs have increased by £0.3m this year due to higher incremental costs following recent recruitments in the team associated with improved focus on training, development and wellbeing for our colleagues. We expect costs to remain at this level in the final year of RIIO-GD2 as we continue to invest in wellbeing, hybrid working and talent development strategies, as well as expanding on our existing diversity and inclusion plans through employee led community groups.

We spent £0.3m more on **Audit, Finance and Regulation** this year, £0.5m less than forecast, on costs associated with development of the RIIO-GD3 business plan. We expect costs to remain at a similar level in 25/26 as development of our business plan for the next price control approaches completion.

We spent £0.2m less on **Insurance** this year due to reduced employee liability claims that historically vary in materiality from year to year and are therefore forecast based on an average of prior year costs. Our forecast increases in the final year of RIIO-GD2 to reflect this.

Our **CEO and Group** costs remained broadly in line with last year. Costs are expected to increase in our final year due to LTIP costs and RIIO-GD3 preparedness.

Procurement costs are in-line with last year and are forecasted to remain at this level, continuing to benefit from the team supporting our Repex and Capex delivery partners leading to an increased capitalisation through our overheads capitalisation policy.

For **IT and Communications** our spend against the allocated cyber resilience allowance for the RIIO-GD2 period remains below the overall provision to date. This position reflects a combination of deliberate, disciplined delivery and external challenges. On the one hand, we have successfully delivered several key projects under budget, underpinned by our focus on proportionality, value for money, and risk-based prioritisation. We have ensured that outcomes address identified cyber and physical risks effectively while demonstrating strong cost control and accountability for customers' money.

On the other hand, delivery progress has been impacted by several significant factors outside of our direct control. The increased burden of BAU operational commitments and substantial changes to regulatory compliance requirements, including the assurance scheme, have diverted both internal and specialist resource from roadmap delivery. In parallel, supply-side constraints have resulted in delays to some of our Price Control Deliverables (PCDs). This includes global microchip shortages which have delayed critical hardware deliveries, poor market responses and procurement challenges which have slowed tender processes as well as limitations in the readiness and capacity of the physical security supplier market. This has made it difficult to engage contractors who are able to complete on-site works to the required standards.

We will continue to manage the programme with a clear focus on risk mitigation and value, ensuring that underspend is not at the expense of resilience outcomes.

5.2.2 Non-Controllable Opex

Non-controllable costs are outside of the control of the GDN's. Revenue allowances are trued up to match the final costs incurred. Key movements year on year are as follows:

- Shrinkage costs primarily driven by gas price changes have increased year on year by £0.5m (8%) to £6.3m with the latest forecast for 25/26 @ £5.6m.
- Supplier of Last Resort payments peaked at £81.3m in 2022/23, were £20.9m in 2023/24 and have reduced significantly in 2024/25 to £0.7m. We expect to total £102.8m over the price control.
- Pension Deficit reflects the recovery of the cost of the buy-in of pensioner liabilities, as discussed with Ofgem in June 2023. We have also included a forecast of £3.8m in 25/26 for residual risk insurance.

- Changes in NTS Exit capacity prices are the main driver of the increase in costs to £28.2m and £39.5m in 24/25 and 25/26 respectively. The forecast excludes any impacts currently being discussed as part of “mod 903” which if implemented would significantly increase GDN Exit costs.

5.3 Capex

5.3.1 Capex against the Allowance

Capex (2018/19 prices)	21/22	22/23	23/24	24/25	25/26	TOTAL
LTS, storage and entry	9.2	7.7	9.7	16.2	30.6	73.4
Connections	7.5	5.5	5.4	5.3	4.4	28.1
Reinforcement	4.7	4.9	4.4	2.9	5.9	22.8
Governors (ex. reinf)	0.3	1.7	2.6	4.2	5.1	13.8
Other Capex	18.5	19.7	23.7	23.9	20.1	105.8
Total	40.3	39.4	45.8	52.4	66.1	243.9
Final Allowance	52.7	57.4	55.2	55.7	51.2	272.0
Variance	(12.4)	(17.9)	(9.4)	(3.3)	14.9	(28.1)
Cumulative Variance	(12.4)	(30.4)	(39.7)	(43.0)	(28.1)	

Table 9 – Capex Summary

Our Capex costs were £52.4m this year, £3.3m below the allowance. We expect costs and workload to increase within the next year and overall, for GD2 forecast to be c.£28.1m under the allowance.³

Local Transmission System (LTS), Storage and Entry costs were £16.2m, c.£3.5m lower than forecast. The main driver for this has been delays in starting work on some of the major projects associated with the Network Rail-driven TransPennine Electrification project. This year's allowance was £3.7m with an actual spend of £1.8m in the year. The project is the largest area of expenditure on our LTS assets in RIIO-GD2 and is expected to involve work at four separate locations. NGN proposed this c.£20m project should be a PCD as we are not driving the work, location or timing, and so the final costs are uncertain. Following further discussions with Network Rail, there have been scope changes resulting overall cost of delivery now expected to be c.£12.0m resulting in a reduced spend against original

allowance. Delivery of the various diversions are scheduled in 2025 and 2026. Further details are provided in section 6.3.3.

We continue to experience delays with long lead items and a shortage of expert contractor resource, driven by general economic conditions and wider demand from expert delivery partners across the utility sector. Despite this we expect costs to increase for LTS, Storage and Entry in line with our business plan, excluding Transpennine, and to peak in 2025/26.

Net Connections costs were £5.3m this year, c£0.3m lower than allowance. Workload reduced on total Mains by 41% and reduced on total services by 17% compared to last year. Costs were lower than previous year due to the reduction in work volume but this relationship between cost and workload is not linear due to stranded overheads as part of the end-to-end Connections process.

Connections (2018/19 prices)	21/22	22/23	23/24	24/25	25/26	TOTAL
Allowed volume						
Domestic Services	5,462	5,802	6,137	6,468	2,174	26,043
Domestic Mains	27.0	30.3	33.5	36.8	3.2	131
Fuel Poor Services	-	-	-	-	-	2,154
Non-Domestic Services	512	517	522	526	530	2,608
Actual and Forecast volume						
Domestic Services	3,931	2,725	2,802	2,220	1,670	13,348
Domestic Mains	17.1	14.9	16.1	9.5	9.5	67.2
Fuel Poor Services	854	185	100	108	100	1,347
Non-Domestic Services	405	282	318	351	344	1,700
Actual & Forecast cost/allow						
Total Connections Net Costs	7.5	5.5	5.4	5.3	4.4	28.1
Total Connections Allowances	8.3	6.2	6.2	5.6	5.0	31.3
Variance	0.8	0.7	0.8	0.3	0.6	3.2
Cumulative Variance	0.8	1.5	2.3	2.6	3.2	

Table 10 – Connections Summary

Connections workload Domestic and Non-Domestic Connections workload was 62% lower than our allowed workload. All workloads reduced during the Covid-19 pandemic and

³ Note: capex allowances have increased by £22.2m compared to last year, largely due to Price Control Financial Model corrections and re-opener reallocations from Repex.

have not returned to the levels seen in the latter years of RIIO-GD1 which drove our business plan forecasts and supported allowed workload.

Actual Connections workload in 2024/25 has reduced by 17% compared to the previous year driven by New Housing and Non-Domestic connections which reduced by 39% and 10% respectively. The higher energy prices following the price cap increase has seen a reduced demand in connections which we expect to continue in 2025/26. Our forecast workload is based on the workload trend we have seen in RIIO-GD2 to date, and we expect a c47% lower workload than the allowance over RIIO-GD2. We expect to see new domestic connections stop in 2025/26 because of government policy prohibiting the installation of new gas boilers in new properties.

Fuel poor workload continues to be lower than planned, 108 compared to the original annual target of 1,000 fuel poor connections set out in our RIIO-GD2 business plan. The repurposing of the Fuel Poor Network Extension Scheme (FPNES) has directed allowance into Vulnerability and Carbon Monoxide Allowance (VCMA) projects, and we have adjusted our forecast to reflect the significant reduced volume of work expected in RIIO-GD2 to 1,347 connections – a 73% reduction compared to the target in our RIIO-GD2 business plan and a 37% reduction compared to the restated volumes following FPNES repurposing.

Connections allowance and costs £0.3m below allowance this year and £0.1m lower than forecast following reduced workload. c£3.2m (43%) of our gross connections and fuel poor costs were overhead related in 2024/25 compared to £4.2m (53%) in 2023/24. Despite this reduction in total overhead costs which is linked to rationalisation of business overheads attracted to Connections activities, the value of overhead as a proportion of unit costs has increased compared to our RIIO-GD2 plan due to stranded overhead costs from our Connections design, planning, delivery and customer teams. These teams are flexed where possible onto other activities but can't be scaled in-line with frequent fluctuations in work demand whilst maintaining high levels of Guaranteed Standards of Service (GSOS) and customer experience performance.

Reduced work volumes across domestic connections and Fuel Poor presents significant challenges on stranded overheads. Along with the continuing cost pressures across materials, reinstatement and plant hire on the work we deliver, we expect unit costs to increase in the last year of RIIO-GD2. We are however forecasting to underspend against allowance by £3.2m (10%) across the full RIIO-GD2 period.

Mains reinforcement costs excluding governors were £2.7m this year. We delivered 7.7km of mains, compared to 13.6km in 2023/24, at a unit cost of c. £343 per metre, a 18% increase from £292 per metre in 2023/24.

Costs and workload have reduced due to minimal enquiries from large load energy producers resulting in unused allowance, that we plan to utilise for network reinforcement associated with enabling efficient delivery of our Repex programme.

Governor costs were £4.2m this year and have grown each year of RIIO-GD2. The costs have risen from £2.6m in 23/24 which is reflected in the workload delivered – 315 District and Service governor units were completed in 24/25 compared to 213 in 23/24 and 78 in 22/23. The commencement of our service governor programme in the year and continuation of our site upgrade programme, were key drivers to increased volumes. We expect to deliver the planned Business Plan volumes over the price control.

Other Capex costs were £23.9m this year, c£3.5m below forecast. The main drivers for this were:

- c.£1.5m underspend on Other Network (E&I/Pipelines), largely due to delays in delivering the Network Rail associated overcrossings.
- c.£4.1m underspend on **IT and Telecoms** than forecast. To date, our spend against the allocated IT and Security allowances for the RIIO-GD2 period remains below the overall provision and forecast for year 4 of RIIO-GD2. This position reflects a combination of deliberate, disciplined delivery and external challenges.
- c.£2.1m overspend on **Vehicles** against the forecast. We are still slightly below the overall allowance in this area, which we still expect to deliver within RIIO-GD2.

We expect costs and workload to increase in 25/26 and to be above allowances specifically on overcrossings and pipelines as we recover the position outlined above. We do expect to see some cost pressures on vehicles, especially as part of our EV trials as well as on areas such as electrical equipment, plant, tools and equipment.

5.4 Repex

Costs and allowances

Repex Costs (2018/19 prices)	21/22 Actuals	22/23 Actuals	23/24 Actuals	24/25 Actual	25/26 Forecast	TOTAL Forecast
Tier-1 - Mains	52.9	53.1	56.5	54.8	51.5	268.7
Tier 1 - Services	9.4	8.8	10.1	9.0	8.8	46.1
Tier-2A Mains and Services	1.6	2.4	0.2	0.5	1.4	6.2
Tier-2B Mains and Services	6.1	6.9	10.2	9.1	8.4	40.6
Tier-3 Mains and Services	3.4	3.4	6.6	6.1	5.0	24.4
<=2" Steel Mains and Services	6.6	4.7	5.0	5.6	6.3	28.2
>2" Steel Mains and Services	4.6	4.6	4.5	4.1	4.6	22.4
>30m Mains	1.4	1.0	2.6	2.9	3.0	10.8
Other Mains and Services	0.2	1.8	0.9	1.5	2.5	6.9
Diversions Mains and Services	7.3	1.9	0.6	1.1	2.0	12.9
Other Services (not mains assoc.)	6.1	5.2	5.2	5.6	5.5	27.6
Tier 1 Stubs	1.1	1.9	1.3	1.2	1.5	7.1
Risers	0.0	0.1	0.2	0.2	0.3	0.8
Total	100.7	95.8	103.8	101.8	100.6	502.8
Allowance	107.7	105.4	96.9	96.5	96.4	502.9
Variance	(7.0)	(9.6)	6.9	5.3	4.2	(0.1)
Cumulative Variance	(7.0)	(16.5)	(9.7)	(4.3)	(0.1)	

Table 11 – Repex Costs

The latest Repex allowance for RIIO-2 after Re-opener adjustments, volume drivers and Real Price Effect Updates is £502.9m.

Our Repex costs were £101.8m this year, £5.3m higher than the allowance. Tier 1 workload delivery continues to be the main driver to our allowance overspend. This year we decommissioned 447.8km of Tier 1 mains against a RIIO-GD2 annual target of 437.3km, a further 10.5km delivered in the year. After 4 years of RIIO-GD2 83.3% of our RIIO-GD2 Tier 1 Mains work has been delivered.

Increases to delivery costs has been a key driver of cost increase as Unit Costs are c£7 per metre above allowance across all Tiers. These increased costs are expected to continue in the remaining year of RIIO-GD2 and into RIIO-GD3.

Tier 1 Stubs work has continued in the year at a cost of £1.2m, with no allowance, as Ofgem provided allowances for the first two years of RIIO-GD2 as the HSE policy was under review at the time, and so the volume and timing of work was uncertain.

It is now clear under HSE policy that we still have Tier 1 Stubs to replace, and so our cost forecast takes this into account in year 5 of RIIO-GD2 and into RIIO-GD3. We will continue to replace these Tier 1 Stubs at a structured rate of c.500 each year with an expected completion of the programme by mid RIIO-GD3.

We have delivered 102.2% of our targeted Iron Mains workload over the four years of RIIO-GD2. We expect to have delivered an additional 63.5km above our allowed volume by the end of RIIO-GD2.

We anticipate Repex costs to increase further in our final year of RIIO-GD2 because of the factors highlighted in the year-on-year performance section below. The embedded and highly successful Direct Service Provider delivery model enables us to maintain our frontier position and target further efficiencies across our Repex delivery model and wider end-to-end processes, but these will be more than offset by cost pressures across direct delivery costs. We are forecasting Repex costs at the end of RIIO-GD2 will be in line with allowance after RPE and other (volume) adjustments. The outperformance seen in early RIIO-GD2 has been eroded as Tier 1 Stubs allowance ended in Year 2 and sustained increases to our delivery costs have continued to impact annually.

Mains Workload

Mains Workload (km)	21/22	22/23	23/24	24/25	25/26	TOTAL	ALLOWED
Tier 1	437.7	430.7	469.7	447.8	421.9	2,207.8	2,144.3
Tier 2a	3.2	1.6	0.8	0.5	2.0	8.2	10.1
Tier 2b	19.1	17.7	24.6	22.1	19.7	103.1	102.0
Tier 3	5.3	5.4	5.5	5.7	5.6	27.5	22.7
Iron Mains (ex. >30m)	464.9	455.0	500.5	476.0	449.3	2,346.6	2,279.2
Steel <2"	45.4	33.0	36.0	41.1	44.0	199.5	218.9
Other	35.8	31.0	40.2	41.8	43.6	192.4	189.8
Diversions	11.1	9.4	13.2	6.0	13.3	53.1	56.6
Total	557.3	528.4	590.0	565.0	550.2	2,791.4	2,744.4

Table 12 – Mains Workload

This year we have delivered a total of 565.0km of mains abandonment.

We abandoned 447.8km of **Tier 1 Mains**, 10.5km above our annual target. The **Tier 1 Mains** target of 2,144.3km over RIIO-GD2, or 428.9km per annum did not include an increase of 8.5km each year, 42.5km over the 5 years, which allows recovery of the Covid-19 related workload shortfall seen in the final year of RIIO-GD1. Furthermore, the additional workload will provide a buffer on delivery as we enter RIIO-GD3. Over RIIO-GD2 we plan on delivering 2,207.8km, 63.5km more than our regulatory target. The increase workload will be funded under the Tier 1 Mains volume driver.

Tier 2a Mains are also subject to a volume driver as the workload is very difficult to predict. We expect to deliver 8.2km over RIIO-GD2.

We are on track to deliver the allowed workload for **Tier 2b** and **>2" Steel** and expect to over deliver on **Tier 3 Mains**. The main driver for this is the safety and reliability of the network. Undertaking work on these ageing assets keeps overall network risk at acceptable levels.

We expect to deliver broadly in line with the allowed **<2" Steel mains** commissioned workload over the price control, however, we will likely under deliver against the decommissioned targets. Volumes can vary as most of this mains type is replaced when we find it whilst replacing Tier 1 iron mains. The under delivery on decommissioned targets is due to a combination of the lay to abandon ratio used as part of RIIO-GD2 planning, and the volume of these mains found as part of Tier 1 replacement schemes.

Other Mains and Diversions work is difficult to predict, as the former includes poor performing PE and Asbestos, which we replace when it's found, and the latter is third party driven. Given current trends, we expect to be broadly in line against the allowed workload over RIIO-GD2.

24/25 year-on-year performance

Year on Year	24/25		23/24	22/23	21/22	20/21	19/20
	Net Cost	Workload	Unit Cost	Unit Cost	Unit Cost	Unit Cost	Unit Cost
(2018/19 Prices)							
Tier 1 and <2" Steel	59.3	478.4	124	122	126	122	142
Tier 2a	0.5	0.8	693	419	1056	503	538
Other	22.9	66.4	344	349	357	258	432
Diversions	1.1	7.2	148	65	192	700	79
Total Mains Laid	83.8	552.8	152	149	153	150	191
Tier 1 and <2" Steel	10.1	33,831	300	318	306	312	299
Tier 2a	0.0	0	0	318	299	0	266
Other	0.8	2,698	299	316	303	311	291
Diversions	0.1	199	302	321	307	312	340
Other Services	5.6	5,997	938	917	829	1091	1252
Total Services	16.6	42,725	389	394	387	413	509
All-in Mains Cost	100.4		182	179	183	182	220

Table 13 – Year-on-year Performance

In terms of year-on-year performance, there has been a marginal increase with the all-in mains cost increasing from £179 per metre in 23/24 to £182 per metre in 24/25. This has been mainly due to increased costs on mandatory Tier 1 & <2" steel mains and delivery of a small volume of Tier 2a mains. Rechargeable Diversions also contribute to the deterioration. We have seen an increase since 2019/20, a pre-Covid-19 comparable year, from £171 to £182 per metre.

This is mainly driven by Tier 1 and <2" steel mains and the associated services, which on a combined basis is £142 per metre, c.£10 above the RIIO-GD2 allowance. There are several factors behind this increase in cost, and these are expected to continue in our final year of RIIO-GD2 and anticipate throughout RIIO-GD3, these include:

- Inflation factors experienced across direct delivery costs that are higher than CPI-H and RPE factors applied to allowances. This directly impacts key direct costs such as - resources, materials, equipment and reinstatement.

- We are committed to maintaining our Strategy of delivering a balanced work programme which does not always result in the cheapest or most efficient work being delivered.
- Increased restrictions imposed by Councils resulting in significantly more Traffic Management and associated streetworks costs.

We expect these cost pressures to remain prevalent for the final year of RIIO-GD2 and, along with other cost pressures and engineering challenges, increase significantly into RIIO-GD3 to the end of the Repex programme. We continue to work on developing a better understanding of how costs and workload can be best managed to deliver the most efficient work delivery for customers and stakeholders.

6 Outputs and Incentives

6.1 Introduction

The adoption of an output and incentive-based framework is a key element of the RIIO regulatory contract. By defining the outputs companies need to deliver, and any incentives or penalties they will receive for over or under-performance, as well as setting cost allowances, companies are incentivised to innovate and deliver the services that customers require at the least cost. An outputs-based framework also provides greater transparency for customers and the networks, as to what services and standards the networks need to deliver.

Outputs for RIIO-GD2 are grouped into three consumer-facing output categories below:

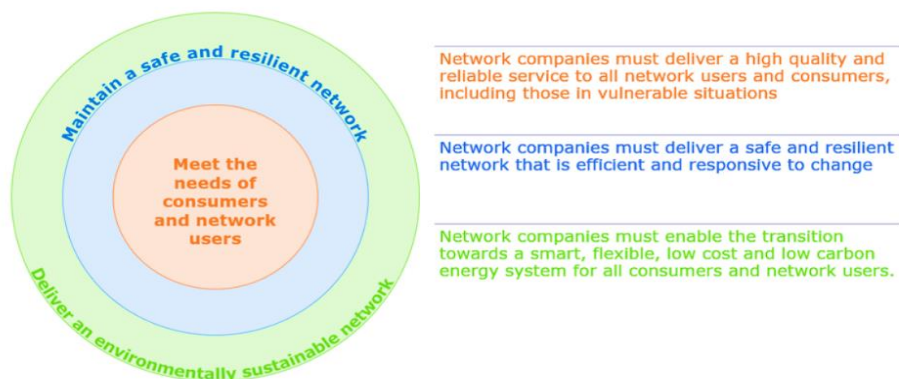


Figure 3 – Outputs for RIIO-GD2

There are three potential types of output, depending on what the ultimate aim of the output is. Some outputs fit into more than one type.

Price Control Deliverables (PCDs) specify the deliverables for the funding allocated, and the mechanisms to refund consumers if an output is not delivered (or not delivered to a specified standard). Their purpose is to hold the networks to account for delivering work

that has been funded through the expenditure allowances, and that they are only paid for what they deliver.

Licence Obligations (LOs) set minimum standards that network companies must achieve. Failure to deliver to these standards means the network is in breach of the licence and can receive a material fine and further sanctions.

Output Delivery Incentives (ODIs) drive service improvement through Reputational and Financial incentives. Network performance will either be rewarded or penalised financially or by reputation when compared against their own targets and those of the other companies.

6.2 Meeting the needs of consumers and network users

Consumer Vulnerability and Carbon Monoxide

Ofgem have introduced three outputs related to consumer vulnerability and carbon monoxide.

- The **Consumer Vulnerability Minimum Standards (LO)** which aims to retain and improve in some cases on the existing standards in a new Licence Obligation.
- The **Consumer Vulnerability Reputational Incentive (ODI-R)** aims to ensure there is focus on three key themes and six key metrics related to vulnerability and carbon monoxide (CO) awareness. This will ensure comparison and knowledge sharing between the gas networks.
- The **Vulnerability and Carbon Monoxide Allowance (VCMA)** is to allow the gas networks to provide bespoke services to support consumers in vulnerable situations and raise awareness of the dangers of CO. It takes the form of a Use-it-or-Lose-it Allowance. NGN has received an increased allowance of £19.7m over the price control (2018/19 prices) following a recent Ofgem decision to repurpose some of the Fuel Poor Network Extension Scheme (FPNES) allowance towards VCMA projects.

Consumer Vulnerability Reputational Incentive

Our key focus throughout this year has been supporting the most vulnerable in our communities and providing a deeper level of support for those with more complex needs.

We are forecasting to spend the full 'use it or lose it' Vulnerability and Carbon Monoxide Allowance by the end of RIIO-GD2 (March 2026), with a split of 62% company specific and 38% collaborative spend.

The following table outlines the headline results for the six key Ofgem metrics, with some additional reporting on the number of customers referred to the Priority Services Register (PSR).

Key Performance Indicator	24/25
Customers reached through Carbon Monoxide (CO) awareness initiatives – this is now calculated on the agreed GDN rulebook, which has specific reach percentages according to the method of engagement.	74,188,631
Number of CO awareness visits / surveys with customers	23,004
Average score before awareness visit	6.05/10
Average score after visit	7.67/10
Number of customers referred onto the Priority Services Register (PSR)	11,889
Average customer satisfaction score for PSR customers directly impacted by NGN	9.32/10
Number of Fuel Poor Network Extension Scheme Connections	108

Table 14 – VCMA KPIs

Over the last 12 months, we have seen a significant increase in the number of CO awareness visits / surveys with customers, and also in the reach through our CO campaigns, both within NGN and collaboratively with the other GDNs.

Here are some specific actions that we have taken to help deliver these results.

Carbon Monoxide Safety Activities

During our engagement activities over the last 12 months, stakeholders identified that the risk of CO exposure increases significantly for individuals who are unable to have their appliances repaired or maintained due to financial hardship.

For these vulnerable groups, maintaining or replacing appliances is often not a priority, which in turn raises the risk of CO poisoning. Many of our customers in vulnerable circumstances are unable to afford CO alarms and are already struggling to cover basic

needs such as food and heating for themselves and their families. In response, NGN will continue to provide free CO alarms to vulnerable customers across our network throughout RIIO-GD2. We have also focussed our awareness activities on the highest risk groups and geographies across our network, to make sure we are targeting our efforts to have maximum impact.

Case Study: Cleveland Fire and Rescue - Stay Safe and Warm

Cleveland Fire and Rescue support NGN customers by identifying households without CO alarms, rectifying the issue as a priority, then referring landlords to housing local authority teams, where appropriate, to ensure that they understand their responsibilities and fulfil them in any remaining properties they are responsible for. Each household would receive and have access to the following package of support through the project:

- Safer homes visit where crews ensure they have appropriate smoke and carbon monoxide alarms in their property and fit where necessary.
- Any other relevant risk reduction can also be issued on the visit as needed by the individuals.
- Home fire safety advice is given at each property.
- If the residents are struggling to keep warm in their home, warmth packs and electric heaters are issued as well as keep warm advice - outcome improved comfort.
- Onward referrals are made to community organisations including Age UK, Smoking Cessation, Social Prescribers.
- Cleveland Fire Brigade has a befriending service for lonely and isolated older people that residents can also be referred into for additional support.

Providing additional support to compliment VCMA

Sitting alongside the VCMA, we have two unique funds specific to NGN that serve to complement and strengthen the support we can provide to those customers in most need. These are 100% shareholder funded and together we committed to investing a minimum of £1m over the 5-year RIIO-GD2 period.

Community Partnering Fund (CPF)

The Community Partnering Fund (CPF) provides seed funding to grassroots community groups to support customers in vulnerable situations. Successful projects from this fund can progress to the VCMA, allowing them to be scaled up. One partnership that has expanded through this route is with Yorkshire Energy Doctor CIC. Initially funded by CPF, this partner developed several small, locally based projects into larger network-wide projects through the VCMA fund. This broader reach has enabled customers in the NGN area to access the services and targeted support provided by this partner.

Case Study: A journey from seed funding to VCMA – Yorkshire Energy Doctor CIC

Yorkshire Energy Doctor (YED) CIC has collaborated with NGN for eight years. In 2017, under the Community Partnering Fund (CPF), then known as Community Promises, a project request was submitted to NGN for a small amount of funding focused on Heating for Health. This project aimed to raise awareness of health risks associated with inadequate heating, such as cold homes, damp, condensation, and Carbon Monoxide (CO), and provide practical ways to address them.

The following year, another small funding amount was awarded for a project to raise CO awareness among vulnerable households, engaging frontline staff to improve their knowledge of CO and implement practical actions to mitigate risks among their clients. Prior to the VCMA availability, YED received further CPF funding to support young people aged 16-25 on low incomes moving into their first tenancies, including care leavers and new young parents, focusing on bills, CO awareness, the Priority Services Register, and access to financial support.

These local projects under CPF were successful, enabling understanding of their effectiveness, target cohorts, and impact. The outcomes provided confidence for greater ambition, maturing into three larger VCMA projects over the past four years, including Community Energy Ambassadors (CEA). This project trains individuals in fuel poverty and energy awareness, equipping them to spread energy matters through social networks, creating broader networking opportunities and collaboration with new partners. Our Centres for Warmth now engage with this programme, training staff and volunteers as Energy Ambassadors. VCMA funding supports vulnerable groups and scales projects across the NGN footprint area, benefiting many communities and individuals.

In October 2024, Dr Kate Urwin, the project lead, received the NGN award for Charity Partner of the Year, acknowledging the impactful work undertaken with this partner.

Customer Support Fund (CSF-Previously called Hardship Fund)

The Customer Support Fund is an annual £150k initiative to aid our most vulnerable customers when other funds, including VCMA, are unavailable. Despite its smaller size, it offers greater flexibility and ensures a lasting impact.

We have used this fund for the Off Gas Warmth project, providing first-time central heating for households unable to secure other funding, especially those not ready for all-electric systems. Many beneficiaries are elderly with health issues worsened by cold. NGN has committed additional funds from unbilled energy (Theft of Gas) to support more households.

During RIIO-GD2, the CSF has funded extra payments to priority customers facing gas supply interruptions between 4-24 hours, offering immediate relief for the higher costs of alternative heating.

This year, we've allocated a small portion of the CSF to better understand the needs of our most vulnerable customers through insights from lived experiences. These insights guide our collaboration with partners and inform our future initiatives.

Vulnerability and Carbon Monoxide Allowance

In 2024/25 we increased our level of expenditure in line with our updated strategy, following the re-purposing of Fuel Poor Network Extension Scheme (FPNES) funding into VCMA.

Of the remaining £16.6m available for years 4 and 5, £14.4m has already been allocated to specific projects. In order to make maximum impact with the remaining £2.2m, we agreed with partners to take the following actions over 24/25 to commit the remaining funds:

- Work with partners on known gaps in themes and geography to co-create projects that address specific needs. In addition, we will target underserved geographical areas including Hull, Bradford, Scarborough and east coast areas, Sunderland and rural/coastal areas in Cumbria and County Durham.

- Use targeted tender events to partner with suppliers to deliver the services we specifically require (via identified gaps).

Some of our key headlines are:

- Warm Homes Healthy Futures project went live in April 24 - NGN led, largest VCMA collaborative project to date.
- Addressing remaining gaps against bespoke vulnerability mapping – project in partnership with Farming Communities Network.
- Extension and expansion of successful existing projects – using learning from other GDNs to inform our projects (SCAAWS project).
- Services Beyond the Meter evolution – moved to in house delivery.
- Expansion of localised service delivery and support - achieved target of 20 Centres for Warmth for RIIO-GD2 by March 2025.

Case Study: Supporting Communities to Achieve Affordable Warmth and Safety (SCAAWS)
- Increasing capacity for support within partner organisations.

Working in partnership with Centre for Sustainable Energy (CSE), NGN has created a new network of partners that brings together grassroot community organisations. This enables the funded services to work together at a local/ granular level to provide support around energy affordability and gas safety.

Through this scheme, grassroot community groups will be armed with the skills, knowledge and funding needed to help customers in vulnerable situations. In particular, those living in fuel poverty and experiencing financial hardship.

Support and training are provided to each partner through CSE, covering energy and financial advice, PSR awareness, crisis support, and information on the dangers of CO.

Case Study: Centres for Warmth (CfW) - Scaling up existing projects.

In August 2024, NGN published the Centres for Warmth Strategy, outlining our aims and approach to reaching the most deprived communities across our network using the CFW model. Having already opened six CfW by the end of March 2024, we continued working with local communities, reaching our target to identify 20 CfW across our network by the end of March 2025. Detailed mapping and discussions with Local Infrastructure

Organisations (LIOs) enabled us to concentrate efforts on the geographical areas most in need, with some areas warranting funding for more than one centre. Each centre acknowledges the specific needs and diversity of the local community, but encompasses common aspects of support provision and awareness, enabled through VCMA funding. NGN have facilitated opportunities for CFW delivery partners to network, share best practice and learn from each other to strengthen their delivery.

Case Study: Services Beyond the Meter – Continued support for those in financial hardship

This year we adapted our approach to our Services Beyond the Meter (SBtM) work and moved from external to inhouse delivery to bring greater efficiencies and ultimately help more vulnerable households across our network. Our inhouse delivery model enables us to take ownership of the customer journey helping to build trust with the customer.

We can take a more holistic approach by signposting customers to other services and organisations that can offer help and support in areas that are beyond our remit.

- We look to support customers for the long term. If a customer receives support with a new boiler installation or a boiler service, we will pro-actively contact them when the next service is due, to establish whether they remain eligible for support which Relieves the stress and worry about costs of servicing.
- Ensures the boiler is safe and operating correctly.
- Provides greater opportunity for increased support and signposting.

As we are fast approaching the end of RIIO-GD2, we wanted to ensure any remaining VCMA funding was spent well and so we took time to review the data and identify where we had gaps in provision. Using the research findings from our bespoke mapping data, and reinforced by stakeholder engagement, we identified four main gaps:

1. Unemployed people
2. Older people
3. Farming communities
4. Young people

To address these gaps, we have developed four pilot projects which have the potential of being scaled up across our entire region or indeed, across several GDN regions if they are successful.

Looking ahead to RIIO-GD3 (April 2026 to March 2031) we are already taking steps to understand what we should do, were our strategic direction to change. If this is the case, we will consider how we should evolve our relationships with our partner organisations. Some steps we are already taking are:

- To work closely with our refreshed Strategic Partner framework to understand and evolve our strategy for RIIO-GD3.
- To focus on the long-term sustainability of existing projects and how we can support partners to help them achieve this. We feel that it is important to support project sustainability, to avoid the impact of a 'cliff edge' in funding availability at the end of RIIO-GD2. We've been considering how we can further support this for our existing partners.

Fuel Poor Network Extension Scheme (ODI-R) (Capped Volume Driver)

Outputs	21/22	22/23	23/24	24/25	25/26	TOTAL	Cap	Variance
Fuel Poor	854	185	102	108	108*	1,357	2,154	(797)

*Forecast for 25/26

Table 15 – FPNES Summary

The purpose of the Fuel Poor Network Extension Scheme (FPNES) is to help tackle fuel poverty by supporting off-grid, fuel poor households to connect to the gas network.

Our updated cap is to connect a maximum of 2,154 fuel poor households in RIIO-GD2. This is subject to a volume driver to ensure we only get paid for the number of connections we deliver up to this volume.

In 2024/25 we delivered 108 FPNES connections, compared to 102 in 2023/24. As there is no funding available for in-house measures, it is becoming increasingly challenging to find customers eligible for connection through the FPNES.

6.2.5 Customer Satisfaction Surveys (ODI-F)

Outputs	21/22	22/23	23/24	24/25	25/26	Average
Unplanned Work	9.54	9.62	9.65	9.65	9.65	9.62
Planned Work	9.09	9.06	9.02	9.10	9.10	9.07
Connections	8.96	9.13	9.12	9.16	9.16	9.10
TOTAL	9.20	9.27	9.26	9.3	9.3	9.26
Incentive (£m 2018/19 prices)	1.4	1.6	1.6	1.7	1.7	1.6

Table 16 – Customer Satisfaction Surveys

The purpose of the Customer Satisfaction Survey (CSS) is to ensure GDNs maintain good customer service and reward GDNs that deliver exceptional performance. The CSS itself involves interviewing customers based on three types of interaction that they have had with the network – connections, unplanned interruptions, and planned interruptions.

Ofgem has set separate targets and rewards/penalties for each type of interaction, with each category weighted equally. Each category also has a deadband within which no reward/penalty is applied. The overall reward/penalty is capped at 0.5% of Base Revenue. This is summarised in the table below.

Outputs	Weight	Max Penalty Score	Penalty Score	Reward Score	Max Reward Score
Connections	33.33%	7.43	8.11	8.65	9.33
Planned Work	33.33%	7.90	8.34	8.69	9.13
Unplanned Work	33.33%	8.85	9.00	9.43	9.58

Table 17 – Customer Satisfaction Rewards and Penalties

This year we achieved an overall score of 9.3. This demonstrates sustained and continual improvement from RIIO-GD1 and through RIIO-GD2.

We recognised that issues linked to cost of living are still present and remain an issue for our customers. To mitigate this, we have:

- Broadened customer support offering including, Fuel Bank vouchers, One number referrals(repair/replace) and SBtM with works completed by NGN engineers.
- Continue to look for service improvements within the Network Customer Group to bring to front line engagement, including DSP contacts attending meetings.

- We have broadened out the scope of engagement with Explain, to make sure that colleagues hear first-hand the analysis that is being undertaken, what it is saying, and how that can influence how we carry out our day-to-day activities.

For the remaining year of RIIO-GD2, we are aiming for year-on-year improvement to scores, with an overall target over 9.3 by the end of the price control period. We are mindful of the impact of the cost-of-living crisis on our ability to maintain this strong performance and are taking actions to mitigate this through our daily activities. Any actions that we take will be sustainable for the future. We will not introduce costly processes/technologies now, that we will not be able to afford on an enduring basis. We will continue to assess technology applications to support our customer service delivery, like the use and deployment of AI.

6.2.6 Complaints metric (ODI-F)

The purpose of the Complaints Metric is to ensure that GDNs maintain good performance in their handling of complaints. The metric is a composite score calculated as the sum of each GDN's performance against four weighted indicators outlined in the table below. The lower the score, the better the GDN is at resolving complaints.

Indicator	Weighting
Percentage of complaints unresolved after one working day (1WD) of receipt	10%
Percentage of complaints unresolved after 31 working days (31WD) of receipt	30%
Percentage of repeat complaints	50%
Percentage of Energy Ombudsman findings against the GDN	10%

Table 18 – Customer Complaints Metrics

The complaints metric has stayed the same as RIIO-GD1, but the threshold for penalty has reduced from 11.57 in RIIO-GD1 to 5 in RIIO-GD2.

Outputs	21/22	22/23	23/24	24/25	25/26	Average
Complaints Metric	2.8	1.8	1.9	1.39	-	-
Target	5.0	5.0	5.0	5.0	5.0	5.0
Penalty (£m 2018/19 prices)	-	-	-	-	-	-

Table 19 – Customer Complaints Summary

This year we targeted both sustained performance on the complaints metric as well as reducing the overall number of complaints received. The overall metric score has improved from 1.9 in 23/24 to 1.39 in 24/25. We have achieved an 8% reduction in complaints, from 1382 in 23/24 to 1276 in 24/25, which meets our internal target of 5-10% reduction in year-on-year complaints.

Our D+1 and D+31 performance has improved year on year, with our strongest results in 24/25, leading to our best complaints metric score since the start of RIIO-GD1.

We anticipate that this reduction will plateau towards the end of RIIO-GD2, and we will be closely monitoring this against our customer satisfaction performance.

In readiness for RIIO-GD3, we have made improvements to our Customer Relationship Management system, by adding in the MPRN against each customer record to help us to report complaints performance for PSR customers. We will be reporting this internally through 25/26.

Also, in readiness for RIIO-GD3, complaints data is now published on our Open Data Portal.

6.2.7 Guaranteed Standards of Performance (GSOPs)

GSOPs	21/22	22/23	23/24	24/25	25/26
Paid Out	£0.68m	£0.42m	£0.35m	£0.253	-

Table 20 – GSOP Payments

GSOPs set common minimum performance standards for GDNs across the service areas of interruptions to supply, gas connections and customer service. If the GSOPs are not met, NGN must pay compensation to customers. There are 14 GSOPs that NGN must monitor and report performance against in RIIO-GD2, consistent with RIIO-GD1.

The GSOPs regime has changed materially from RIIO-GD1 to RIIO-GD2 with many of the standards seeing reduced timescales, increased payment values and proactive rather than reactive payments. We supported this approach in our business plan. The change has impacted processes within NGN and Xoserve and the response has been positive with the intended improved outcomes for customers. In total, payments fell from £0.35m in 2022/23 to £0.253m in 2024/25. Voluntary “Cost of Living” payments of £0.077m made to customers who suffered an unplanned interruption to their gas supply of between 4 hours and 24 hours are included within this.

For Connections GSOPs, we have continued to achieve results significantly above our regulatory target of 90%. GSOPs 4 to 9 achieved over 99%, GSOP 10 achieved 95.8% and GSOP 11 achieved 97.8%.

6.2.8 Emergency response time (LO)

Outputs	21/22	22/23	23/24	24/25	25/26
One Hour Response	99.75%	99.55%	99.81%	99.90%	-
Two Hour Response	99.95%	99.69%	99.93%	99.99%	-
Target	97%	97%	97%	97%	97%

Table 21 – Emergency Response Time

The purpose of the emergency response time licence obligation is to ensure GDNs respond to 97% of reported gas escapes within one hour when they are uncontrolled, and within two hours when they are controlled. Performance against both these targets can be adversely affected by large incidents or very severe winter weather conditions.

This year we achieved 99.90% and 99.99% for our one-hour and two-hour response respectively. Achieving this standard is a core target for our network and receives day to day focus from our operational teams, in particular in the key winter periods.

6.2.9 Unplanned interruptions (ODI-F)

Outputs	21/22	22/23	23/24	24/25	25/26
Actual	5 hours	5.44 hours	5.31 hours	5.58 hours	-
Minimum Performance Level	10 hours	10 hours	10 hours	10 hours	10 hours
Excessive Deterioration Level	17.5 hours	17.5 hours	17.5 hours	17.5 hours	17.5 hours

Table 22 – Unplanned Interruptions

The purpose of the unplanned interruptions financial output delivery incentive is to ensure that GDNs manage the duration of these interruptions appropriately and performance does not deteriorate. An unplanned interruption is one where no prior notification has been given to the customer. These are typically caused by problems with the network assets (upstream of the Emergency Control Valve), damage to assets by third parties, and water ingress.

The incentive is penalty only, with a collar of 0.5% of Base Revenue. Each GDN has an individual Minimum Performance Level (MPL), representing the point at which a penalty will

be incurred, and an Excessive Deterioration Level (EDL), where the maximum penalty will be incurred. The penalty will increase linearly between these two levels.

This year our average duration was 5.58 hours for 11,121 interruptions, which compares favourably to the RIIO-GD1 average of 6.6 for 12,488 interruptions. The duration of interruptions are very dependent on factors such as location, ground conditions, and extreme weather conditions.

6.2.10 Data Best Practice and our Digitalisation Strategy and Action Plan (LO)

The purpose of the **Data Best Practice** licence obligation is to ensure the delivery of a digitalised energy system that will maximise the value of data for consumers. Ofgem own and publish a Data Best Practice Guidance document which defines the data that we must comply with and then details a principles-based compliance approach. This document was published on 15 November 2021, and has been adopted by NGN. As active members of the Data and Digitalisation Steering Group (DDSG) representing energy distribution and transmission companies, NGN have engaged with Ofgem, BEIS (at the time) and other key stakeholders to help shape the guidance and to promote its consistent application. NGN chairs a sub-group of the DDSG on Data Interoperability.

The purpose of the **Digitalisation Strategy and Action Plan** (DSAP) licence obligation is to ensure GDNs work to make better use of Energy System Data and digital technologies to generate value for customers and stakeholders. This could include delivering a more efficiently planned, maintained and operated energy system, with users having greater information and insight.

Under the licence obligation GDNs are required to publish and seek feedback on:

- An updated Digitalisation Strategy at least once every two years.
- An updated Digitalisation Action Plan at least once every six months.

NGN's latest Action Plan can be found [here](#).

6.3 Maintain a safe and resilient network

Repex - Tier 1 Mains and Services (PCD)

Outputs	21/22	22/23	23/24	24/25	25/26	Total	Target
Mains	437.7	430.7	469.7	447.8	421.9	2207.8	2144.4
Services	30,220	28,688	31,929	30,131	28,579	149,547	147,469

Table 23 – Tier 1 Mains and Services

The purpose of the Tier 1 mains and Tier 1 services PCDs is to fund the workload delivered under the Tier 1 replacement programme. Both PCDs contain an Allowance Adjustment Mechanism that ensures consumers only fund the volume and mix of work delivered, subject to an upward cap to limit the amount of any over delivery. Over RIIO-GD2 we plan on delivering an average of 441.5km of Tier 1 mains per year in broadly the same workload mix contained within our business plan. This is an increase of 12.6km each year and 63.5km over the 5 years. This will allow us to recover the Covid-19 related shortfall of workload seen in the final year of RIIO-GD1 by the end of the Repex programme in 2032. This is below the 3% cap for mains workload and is therefore funded through allowances.

This increase in mains also drives an increase in services, where we expect to deliver 2,078 extra over the 5 years, 416 per year. This is below the 10% cap for services.

Gasholder demolitions (PCD)

Outputs	21/22	22/23	23/24	24/25	25/26	Total
Actual	5	10	5	3	-	23
Target	9	5	5	3	1	23
Cumulative Out / (Under)	-4	5	-	-	-1	0

Table 24 – Gasholder Demolitions

The purpose of the Gasholder Demolition PCD is to fund the removal and decommissioning of gasholders. These assets are no longer required to operate the network, present a safety risk and require maintaining whilst still in situ.

This year we successfully removed the final 3 gasholders to complete the RIIO-GD2 programme a year earlier than anticipated.

Capital Projects Price Control Deliverable (PCD)

The purpose of the Capital Projects PCD is to hold the networks to account for the delivery of specifically funded capital investments. NGN has two such projects, discussed below.

TransPennine Rail Electrification – this is the largest area of expenditure on our LTS assets in RIIO-GD2 and involves work at 4 separate locations. NGN proposed this project should be a PCD as we are not driving the work, location or timing, and so the final costs are uncertain.

The LTS asset diversions required as part of the Network Rail Trans-Pennine Upgrade (TRU) project are at varying stages due to the progress of each respective scheme (East and West).

The TRU West scheme at Heaton Junction has now been physically completed and works are ongoing to close out the associated as-built paperwork. At Ravensthorpe, the scope was reduced to a plant protection solution. This has been delayed due to ongoing mining remediation works in the area that have prevented the commencement of the solution being installed. It is still expected that this will be completed in 2025 based on the correspondence that we have received from the TRU West team.

With regards to the TRU East diversions, Ridge Road has mobilised to site, and we have completed the first segmental shaft. The second shaft has commenced, and the tunnel is expected to be completed before the end of summer 2025 which will then allow for the 600mm HP diversion works to be completed (expected by the end of 2025).

Austhorpe Lane design has progressed, however due to several technical and logistical challenges, progress has been slow. We are expecting to award the tunnel crossing works in summer 2025 and mobilise to site to complete the diversion in early 2026. It is thought that this part of the works will be completed Summer 2026 due to the network constraints.

We are now at a point that despite previous uncertainties, we expect all diversion / protection works to go ahead.

Overcrossings – we build these assets when our below-ground pipes cross natural or man-made obstacles such as rivers, canals, roads and railways. We have a total of 352 overcrossings throughout our network. If an overcrossing fails, we risk an explosion, loss of supply, and methane leakage. There is also a security risk should a member of the public

access the site and fall from the pipework (such an incident happened with another GDN network in RIIO-GD1).

Under this PCD we have a target to deliver 39 condition upgrades, 11 removals, 2 replacements and 67 security upgrades for £8.4m over RIIO-GD2. In Year 4, we have completed 10 condition upgrades, 3 removals and 17 security upgrades.

The running cost incurred to date is £3.2m against a PCD value of £8.1m. Overall our forecasted Capex figure for RIIO-GD2 is £4.5m. There have been difficulties starting work at several Network Rail overcrossings, which has resulted in a change of profile of the remaining schedule. There has been a reduction in Capex cost of c.£1m, as we have decided to remove rather than maintain the overcrossings. We still anticipate delivering all the units, but at a significantly lower cost.

Cyber resilience IT and OT (PCD)

The purpose of the Cyber Resilience Information Technology (IT) and Operational Technology (OT) PCD allowance is to support NGN in managing risks associated with the security of its information and operational technology. The funding seeks to:

- Reduce the likelihood of security incidents occurring
- Minimise the impact of security incidents that have occurred
- Improve the continuity of gas distribution services whilst operating in cyber-affected states
- Support wider business objectives such as digitalisation and net zero initiatives

This work is business critical and sensitive in nature so is not considered in detail here. We received funding for use across the first three years of RIIO-GD2. Funding was not provided for the later years due to the increasingly uncertain nature of the risks and hence the funding required.

Job completion lead-time including re-instatement (ODI-R)

Outputs	21/22	22/23	23/24	24/25	25/26
Total completed Jobs	1,174	1,284	1,069	1,086	-
% Completed within target	57.6%	82.3%	91.1%	93.7%	-

Table 25 – Job Completion Lead-times Including Re-instatement

This output requires NGN to complete works for a connection or service alteration at sites where flow rates are below 275kWh per hour within 20 working days of payment. The RIIO-GD2 target for NGN is to ensure this is achieved 45% of the time by the end of the price control. NGN's performance in 2018/19 was c31%.

This year we exceeded the target, completing 93.7% of works within 20 days, a continual improvement on the 91.1% performance in 2023/24. The target was formally embedded within our workforce planning activities and our Totex operating model ensured resource was available to significantly improve performance.

Multi-Occupancy Building Record Keeping (BAU)

In RIIO-GD2, we continue to ensure our approach to multi-occupancy buildings is consistent with best practice and will exploit the new analytical capabilities of SAP HANA. We do not expect any significant developments or issues to occur in RIIO-GD2 that would impact our record-keeping related to Multi Occupancy Building (MOB) assets, however we will continue to monitor and adapt as more information arises.

In Year 4 the 3-5 storey riser population grew as we continued the programme beginning in Year 2 to identify and survey our 'medium rise' (3-5 storey) asset population. We anticipate this figure will continue to rise as we progress further. While in previous years we have had a full view of 'high rise' (6+ storey) population, our data for lower rise buildings has been more limited. The 10+ storey riser population declined as two local authority housing operators converted some tower blocks to use alternative heating sources. We anticipate this will continue in Year 5.

An app is under development to replace the existing paper-based survey forms, which will improve data capture through in-built validation rules.

6.4 Deliver an environmentally sustainable network

Shrinkage and environmental emissions (ODI-F and ODI-R)

The purpose of the shrinkage and environmental emissions ODI is to incentivise the gas networks to reduce shrinkage and leakage gas volumes.

Shrinkage gas includes gas illegally taken by third parties, own use gas the networks use primarily for pre-heating gas at locations where the gas moves from one pressure tier to the next, and leakage gas. The reputational ODI covers all of shrinkage gas.

During 2024/25 we successfully reduced our overall Shrinkage Gas volumes by 17.8GWh to 250.3GWh. This has outperformed our original business plan target. Our improvement in performance is a result of maintaining targeted effort in increasing our MEG saturation levels and reducing our average system pressures. We have increased our filling and sampling levels, improved our routes, and developed internal performance league tables which has driven our saturation levels in an upwards direction. In 2024/25 we have achieved a decrease in average system pressure from 31.00mbar to a network total of 30.86mbar. Daily MI has allowed us to target efforts in the areas which matter most resulting in a continued reduction in leakage.

This outcome can be seen in our assessment of our current and forecast performance against the financial ODI that covers leakage associated with average system pressure and gas conditioning levels. With the continued improvement in average system pressures, the pressure element of the ODI is now an incentive. In 2025/26, we are conservatively forecasting no outperformance in Average System Pressure on the basis that the winter and operation conditions may be more severe than experienced in 2024/25, which was a very mild winter, but we will show a continued outperformance in MEG Saturation.

Environmental Incentive	21/22	22/23	23/24	24/25	25/26	Total
£m, 18/19 prices						
Environmental Emissions	(0.3)	0.4	0.4	0.4	0.3	1.3

Table 26 – Environmental Incentive

Commercial Fleet EV Price Control Deliverable (PCD)

The purpose of the Commercial Fleet Electric Vehicle (EV) PCD is to support the networks in converting their vehicle fleets to EVs or other zero emission equivalents. The base totex allowance includes funding for updating the network vehicle fleets. The funding in this PCD relates to the incremental cost of purchasing an electric vehicle in place of an equivalent internal combustion vehicle. While the unit costs are for vehicles and infrastructure based electric vehicle data, the PCD allows equivalent zero-emission vehicle types, such as hydrogen, to be substituted for an EV where this is efficient. The PCD is also subject to a

volume driver which adjusts the five-year allowance to reflect the actual volume and mix of EVs delivered over the price control.

NGN's PCD includes replacing 146 small and medium vans with EVs and installing 182 electric vehicle charging points.

The above figure has since been revised due to the constraints and challenges with implementing a full electric emergency response fleet, throughout RIIO-GD2 we aim to replace 10 small and medium vehicles with EV and install 53 charge points, including home charging support.

Our plan was to begin installing the EV charging points in the first year of RIIO-GD2 and to purchase 2 EVs to fully trial and understand the impact on operations of adopting EVs. However, the Covid-19 pandemic delayed the preparatory work needed to deliver this. A successful tender exercise was completed in 2022, where we appointed an EV charger supplier. Once we completed all the required surveys to ensure our offices and depots have the necessary electrical capacity to support the EV charging points, along with securing local DNO approval we have since installed 43 electric vehicle charge points across our operational depots and offices. These EV charge points will support charging of battery electric vans and encourage more colleagues to make that switch from an internal combustion engine to a full battery electric car for both personal and business travel.

Throughout 2023/24 NGN continued to search the market for a fit for purpose battery electric van and has undertaken research and surveys across the network to understand suitability for operational use and emergency response. NGN ordered a batch of 10 battery electric medium vans EVs in May 2024 to fully trial across the network within the First Call Operative emergency response role. Delivery dates were subject to worldwide supply chain issues and manufacturer delays with vehicle deliveries estimated for May 2025 for trials to commence throughout the remainder of RIIO-GD2. Further orders may be placed in RIIO-GD3, subject to suitability assessments and availability of vehicles.

Environmental action plan and annual environmental report (ODI-R)

The purpose of the Environmental Action Plan (EAP) and Annual Environmental Report (AER) is to ensure that GDNs take responsibility for the environmental impacts arising from their networks and are transparent in what they are doing to mitigate these. It aims to

support the delivery of environmental outcomes and encourage greater environmental ambition.

The EAP included workload targets for three key **Land Remediation** activities:

1. **On-going periodic condition reviews** for all 148 sites within the portfolio to ensure conditions remain stable and existing environmental risk assessments remain valid. **Environmental monitoring** works at up to nine sites and intrusive survey works at up to 7 sites to confirm site conditions and refine the existing environmental risk assessment.
2. This year we completed the above activities across 59 sites, in line with the EAP target. This included intrusive land contamination survey work at four of the sites and environmental sampling at 10 of the sites to update the environmental risk and potential liability. Site inspections were completed at 47 sites to ensure their conditions remain stable and the existing risk assessments remain valid. Some sites saw more than one work activity. **Remediation works** at up to eight sites where we have identified potentially non-compliant conditions, or where remediation would deliver environmental betterment to reduce the long-term contamination risks associated with the sites.

During 2024/25 we finalised the formation of our Land Remediation Contractor Framework to enable the delivery of our remediation works commitments. Bespoke remediation works were then successfully completed during the period at Normanton and Clough Road, Hull former gasworks sites. The works comprised targeted contaminated soil removal and capping works, respectively, to ensure the sites are maintained in a compliant condition. Two further remediation projects commenced at former gasworks sites in Q1 of 2025/26, with additional works to follow during the remainder of the year to ensure delivery of our EAP commitment.

The completed (2024/25) and planned (2025/26) delivery of the remediation project programme differs from the initial forecast provided in our RIIO-GD2 business plan. This is due to the works planned for 2021-23 in RIIO-GD2 being impacted by delays and restrictions caused by the Covid-19 pandemic and time taken to complete thorough and detailed technical planning of some complex and challenging remediation projects to ensure they are delivered in the most effective and efficient manner.

Full details of our performance against our **Environmental Action Plan** initiatives will be provided in our **Annual Environmental Report** which will be published by 1 October 2025. A summary of the key actions we have taken during 2024/25 is provided below:

- Company car fleet – continues to be hybrid, plug-in hybrid or battery electric vehicles only. Our colleagues can also take advantage of an electric and hybrid vehicle leasing salary sacrifice scheme to enable them to make sustainable vehicle choices. Our programme of installing EV chargers at our office and depots is now complete providing infrastructure for charging company and colleague electric vehicles.
- Renewable energy – we have successfully installed rooftop solar power generation at eight of our offices and depots to produce our own zero carbon electricity.
- In partnership with the White Rose Forest, Humber Forest and Community Forest Trust we directly funded the planting of 7,200 trees and 1,270m of new hedgerow to directly tackle poor urban air quality in our region. This means during RIIO-2 to date we have funded the planting of 52,700 urban trees in our region, already outperforming our RIIO-GD2 target of 40,000 trees.
- Homes for Nature – 112 NGN infrastructure sites now have improved conditions to encourage biodiversity, in addition to further demonstrating the potential of 'No Mow May' on our gas pressure reduction sites during 2024. We are on track to achieve our end of RIIO-GD2 target (250 sites).
- Office and depot waste – total waste tonnage remains stable and the percentage of waste to landfill reduced to 0.0% for the first time. This means we are on track to reach our 2026 targets.
- Zero excavation spoil disposal to landfill (0.0%) for the second year running and a similar low level of virgin aggregate use in reinstatement (3.9% compared to 2.7% in 2023/24) due to effective partnership working with our supply chain. We are on track to achieve our end of RIIO-2 target for spoil to landfill (<0.1%), with potential to achieve our virgin aggregate use in reinstatement target (<2.5%). Unfortunately, we face significant recycled aggregate supply constraints in parts of our region, most notably Cumbria.
- Awareness and understanding – we continued a programme of delivering environmental training to our colleagues on topics including circular economy and carbon and climate.

Section 6.4.2 above provides details of our actions taken during 2024/25 to achieve our Commercial Fleet EV Price Control Deliverable.

Business Carbon Footprint (ODI-R)

The purpose of the business carbon footprint (BCF) reputational incentive is to ensure that GDNs take responsibility for their BCF and are transparent in what they are doing to reduce this. Our Environmental Action Plan (EAP) included targets for the reduction in BCF over RIIO-GD2.

Business Carbon Footprint		21/22	22/23	23/24	24/25	25/26
Non-Shrinkage BCF for Scope 1 and 2 [^] – tCO ₂ e	Actual	4,785	5,099	5,102	5,122	
	Target*	4,943	4,527	4,011	3,688	3,612
Non-Shrinkage BCF for key Scope 3 – tCO ₂ e	Actual	15,200	15,233	17,355	16,705	
	Target*	15,298	15,030	14,724	14,457	14,191
Scope 1, 2 [^] and key 3 BCF – tCO ₂ e	Actual	19,985	20,333	22,457	21,827	
	Target*	20,241	19,557	18,735	18,145	17,803
Total Scope 1, 2 [^] and 3 BCF – tCO ₂ e	Actual	27,191	26,730	28,878	28,226	
Scope 1 - Shrinkage tCO ₂ e	Actual	363,345	328,250	308,973	287,622	

Table 27 – Business Carbon Footprint

* Business plan targets amended in May 2022 (Scope 3) and April 2023 (Scope 1) in agreement with Ofgem to bring emissions reporting in line with best practice methods.

[^] Market-based Scope 2 emissions methodology

Our total greenhouse gas emissions reduced by 6.5% between 2023/24 and 2024/25 driven by strong gas leakage reduction performance.

Our Scope 1 and 2 BCF (market-based excluding shrinkage) has remained stable with little variation since returning to more typical working conditions in 2022/23 after the Covid-19 pandemic. The main influences on this performance are the external constraints we have experienced with our vehicle fleet investment plans, most notably delayed delivery of new diesel vehicles that we have ordered and the limited availability of suitable zero emission commercial vehicles as outlined in Section 6.4.2.

This area remains challenging for NGN to reduce emissions. Reductions in emissions associated with business travel in cars have been achieved during 2024/25 however these have been offset by increases in emissions from company vans due to us operating more vehicles. NGN continue to purchase only 100% certified renewable electricity for our premises, and this has been supplemented by the successful installation of roof-top solar

energy generation at eight of our offices and depots during 2024/25 which will deliver carbon savings for many years.

Emissions for identified key Scope 3 emissions sources decreased compared to 2023/24 (-3.7%) but exceeded our annual target (+16%), principally reflecting our mains replacement workload characteristics. Full details and discussion of the BCF performance will be reported in our 2024/25 Annual Environmental Report.

7 Re-openers

7.1 Introduction

It is not always possible to anticipate all future events as some are outside of a company's control. This limits the ability of companies to accurately forecast costs, workload as well as any associated outputs.

In these circumstances Ofgem can include re-openers to manage this uncertainty. Depending on their design they allow Ofgem to adjust a company's allowances (in some cases up and in some cases down), outputs and delivery dates in response to changing circumstances during the price control period.

7.2 HSE Fatigue

The purpose of this re-opener is to account for changes in Health and Safety Executive (HSE) policies that result in material changes to Totex costs during RIIO-GD2. Funding can move up or down in response to HSE policy changes that impact safety requirements.

The HSE has engaged with the GDNs to assess our fatigue management approaches to ensure they are appropriate and benchmarked against the good practice as outlined in Managing Shift Work: Health and Safety Guidance (HSG 256). This includes a systematic approach for assessing and managing the risks of work-related fatigue, covering the planning and monitoring of working hours, and an audit of working time arrangements.

The impact is expected to be £16.2m over RIIO-GD2 based on the analysis and modelling used to support our re-opener [submission](#) in September 2024. A material increase in resource will be needed to cover our 24-hour 365 days a year operation. We are already incurring additional cost of circa. £2m per annum to meet new HSE fatigue requirements, based upon additional resourcing recruited to date within Emergency Response. These costs are estimated to reach circa. £10m p.a. by the end of RIIO-2 across Totex. We are continuing to work on resource and associated shift pattern modelling, to establish the most efficient response to this challenge to mitigate cost increases whilst remaining compliant with best practice. We are waiting for Ofgem's decision on this re-opener as of July 2025.

7.3 Streetworks

The purpose of this re-opener is to allow GDNs to recover the efficient costs of complying with new permit and lane rental schemes, or new requirements introduced by public bodies after the RIIO-GD2 price control was set. These public bodies include agencies such as the Environment Agency, not just the highways authorities. Therefore, the scope of this re-opener includes the situation where the GDNs incur increased costs for disposing of excavated material from streetworks, if the Environment Agency withdraws Regulatory Position Statement 211.

When we submitted our business plan 7 out of 25 authorities in our network had introduced permit schemes, at a cost of c£2m per year. All 25 authorities have now introduced schemes which has increased our costs across the whole network. We manage the process, pay the permit fees, and the permits themselves impose conditions on how we are to manage streetworks and operate in the street, which often impacts productivity. Further to this 3 of the highways authorities have signalled their intent to roll out lane rental schemes by the end of the RIIO-GD2 period which will further increase our costs. Importantly we did not include a forecast for this increase in our business plan submission and have looked to mitigate the impact where possible. Our re-opener [submission](#) was sent to Ofgem in September 2024 based on known additional permit schemes and local authority requirements and we estimated the additional cost to be £17.5m over RIIO-GD2. We are waiting for Ofgem's decision on this re-opener as of July 2025.

The existing arrangements which provide utilities with regulatory exemptions regarding the waste classification of excavation spoil will end in September 2025. Over a number of years Street Works UK has led an industry working group to develop an alternative way of working to ensure that utility excavation spoil waste can be practicably managed in accordance with waste legislation. We have participated in all three phases of field work (with the latest during summer 2024) to characterise excavation spoil waste and develop and test new methods of risk assessment. This work to develop a new spoil waste management protocol was completed and agreed with the Environment Agency during 2024/25 with full industry implementation set to commence in October 2025. Depending on progress and outcomes, this may be included in a future re-opener which would impact costs in RIIO-GD3.

7.4 Tier 1 Stubs

The purpose of this re-opener is to allow GDNs to recover efficient costs for decommissioning Tier 1 iron stubs. A Tier 1 stub is a short length of Tier 1 iron main attached to a larger diameter parent main which would previously have been decommissioned at the same time as the parent main. Under the Three Tier Repex approach introduced in RIIO-GD1 not all large diameter parent mains will be decommissioned, as they may not pass a cost-benefit assessment.

Ofgem provided allowances for the first two years of RIIO-GD1 as the HSE policy was under review at the time, and so the volume and timing of work was uncertain. It is now clear under HSE policy that many Tier 1 stubs still need replacing. We did not utilise the re-opener window in October 2023 and will complete our planned Tier 1 stubs workload in RIIO-GD2. There will be additional stubs to remove into mid RIIO-GD3.

7.5 Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZASP)

[East Coast Hydrogen](#) (ECH) is a collaboration between Northern Gas Networks, Cadent and National Gas. It is a 15-year programme that will be carried out in multiple discrete phases. Further detail is provided in section 8.4.

FEED works are needed for the next phase of the East Coast Hydrogen Project. The full needs case, options and costs are being collaboratively drawn up with project partners to enable next phase of ECH. All three partners submitted separate re-opener applications. Following a clarification period, Ofgem published their positive-minded draft determination to fund the project in March 2025, simultaneously initiating a month-long consultation. After the consultation, Ofgem granted NGN the full requested amount for the project to proceed to the FEED stage as part of their final determination in June 2025.

8 Innovation and Futures

8.1 Introduction

NGN's innovation and futures strategy during RIIO-GD2 focuses on enabling a cost-effective transition to Net Zero while maintaining system reliability and supporting vulnerable consumers. This is achieved through three key funding mechanisms: the Strategic Innovation Fund (SIF), Network Innovation Allowance (NIA), and Net Zero Use It or Lose It (UIOLI) allowance.

NGN is committed to a whole systems approach to deliver sustainable energy solutions that will benefit our customers and contribute to meeting the UK's Net Zero emissions targets. A whole systems approach is one that facilitates strong collaboration and integration across utilities, operations, markets and supporting processes and is tested against a range of future scenarios.

8.2 The Strategic Innovation Fund

The Strategic Innovation Fund (SIF) aims to find and fund ambitious, innovative projects with the potential to accelerate the transition to net zero. Ofgem have allocated £450 million to this fund over the period 2021 to 2026. The SIF is delivered in partnership with Innovate UK, part of UK Research and Innovation (UKRI) and is structured over three Project Phases (Discovery Phase, Alpha Phase and Beta Phase), with successful application and assessment against Eligibility Criteria as a condition of receiving SIF Funding for the relevant Project Phase.

Under SIF, NGN is progressing projects like Hydrogen Cost Reduction ([HyCoRe](#)), which explores using excess offshore wind for green hydrogen production, and [HyScale](#), which investigates long-duration hydrogen storage using Liquid Organic Hydrogen Carrier (LOHC) technology. Both projects are advancing through the SIF phases with promising outcomes.

8.3 Network Innovation Allowance

The Network Innovation Allowance (NIA) is to fund innovation relating to support for consumers in vulnerable situations and/or facilitating the energy system transition. NGN has embedded a five-step process to decide on which projects to fund through the NIA. This approach helps to identify barriers to realising a successful outcome and ensures that they are removed.

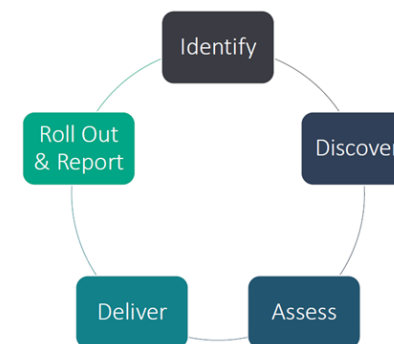


Figure 4 – NIA Funding Process

NIA-funded initiatives in 2024/25 include smarter gas pipe commissioning to reduce methane emissions, research into nuclear-enabled hydrogen production, and Project Helix—a world-first wearable CO detector. These projects aim to enhance safety, reduce emissions, and explore alternative energy sources. A summary of these projects is outlined below and further details of these and our other projects can be found in [NGN's RIIO-2 Year 4 Innovation Report](#).

Reducing emissions through smarter gas pipe commissioning

In collaboration with ROSEN, NGN has identified a significant opportunity to [reduce methane emissions during gas mains commissioning](#)—one of the network's highest-emitting activities. Traditionally, gas purging calculations are based on pipe diameter, often resulting in excessive gas release. By revisiting these calculations, NGN and ROSEN have developed revised purging tables that significantly shorten purge times without compromising safety or operations.

To validate the new methodology, NGN is conducting ten field trials across various pipe diameters. If successful, the updated approach could reduce methane emissions by up to 87,000 tonnes annually, with no additional cost or operational disruption. The project emphasises the broader impact of the initiative, noting that small operational changes can yield substantial environmental benefits. The findings will be shared across the UK gas distribution sector to support wider emissions reductions.

Exploring how nuclear-produced hydrogen can help achieve net zero

NGN, in collaboration with Wales & West Utilities, DNV, and nuclear consultancy Equilibriion, conducted a [three-phase research project](#) to assess the potential of nuclear-enabled hydrogen in supporting the UK's net zero ambitions. The study examined optimal production methods, alignment with government policy, and public perception.

Phase one reviewed existing research and fostered cross-sector collaboration. Phase two developed and evaluated production models, considering regional deployment and stakeholder feedback. The final phase delivered a comprehensive roadmap for implementing nuclear-produced hydrogen across the UK.

The project has sparked valuable dialogue between the nuclear and gas sectors, laying the groundwork for future deployment of low-carbon hydrogen solutions.

A world first for combatting carbon monoxide

NGN, in partnership with Affotek and Newcastle University, has launched [Project Helix](#) —an innovative R&D initiative to develop the world's first wrist-worn carbon monoxide (CO) detector. This wearable device not only monitors vital signs such as heart rate and oxygen levels but also detects CO concentrations as low as 7 parts per million, offering significantly earlier warnings than traditional alarms.

Designed to enhance personal safety, particularly for vulnerable groups, the device connects to a mobile app for real-time alerts. Field trials are currently underway, with plans to bring the product to market within 12 months. Project Helix represents a major advancement in CO safety and wearable health technology.

Domestic heating, reimagined for the future

Led by NGN, the [Futures Close Heat Programme](#) is a flagship initiative aimed at identifying cost-effective, low-carbon heating solutions for UK homes. Based at a purpose-built test site in Low Thornley, Gateshead, the project replicates nine common housing types - representing 40% of English homes—to evaluate optimal combinations of heating systems, controls, and fabric upgrades.

Collaborating with Wales and West Utilities and supported by leading manufacturers and academic partners, including Leeds Beckett University, the programme is generating real-

world data to inform national heating strategies. Running until March 2027, it is a critical step in addressing the UK's domestic heat decarbonisation challenge and shaping scalable, sustainable solutions for the future.

8.4 Futures

In its RIIO-2 Final Determination, Ofgem established a Net Zero and Re-opener Development Fund Use it or Lose it allowance ("NZARD UIOLI"). The purpose of the NZARD UIOLI is to enable Network Licensees to fund small Net Zero facilitation projects, and to allow for early development work on projects that network companies intend to bring forward at a later stage through other RIIO-GD2 Net Zero-related mechanisms. NGN were awarded £4.5m under the NZARD UIOLI.

Overview of NGN Futures projects

In 2024/25, NGN strategically allocated its Use It or Lose It (UIOLI) allowance to projects focused on defining the role of gas in achieving the UK's Net Zero targets. This included the development of a comprehensive energy futures strategy and roadmap, designed to assess whole-system impacts and guide effective deployment of resources.



Figure 5 – NGN RIIO-GD2 Whole Systems Strategy

The strategy identified a range of potential actions, prioritising “low regrets” measures—those beneficial across multiple future scenarios. As NGN prepares for RIIO-GD3, this approach will evolve to reflect emerging priorities and ensure alignment with long-term decarbonisation goals.

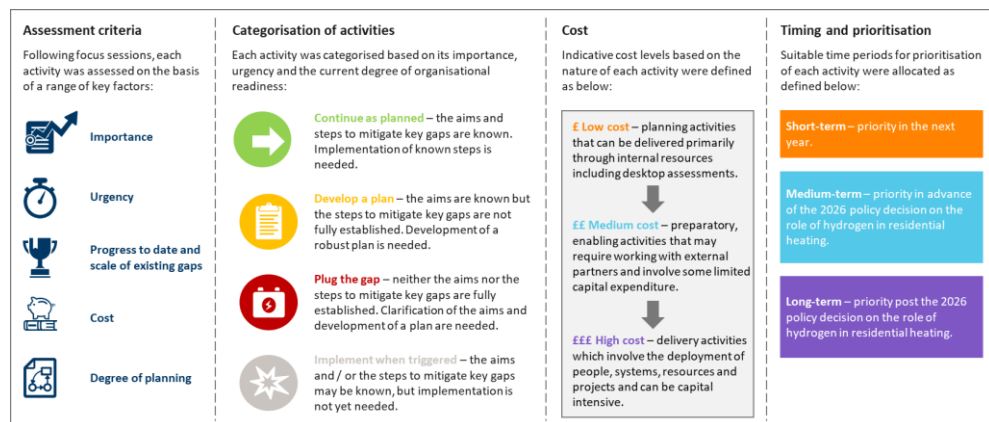


Figure 6 – NGN RIIO-GD2 Whole Systems Roadmap

Key highlights from some of the projects we have progressed in 2024/25 are outlined throughout this section.

East Coast Hydrogen

[East Coast Hydrogen \(ECH\)](#) is a 15-year strategic infrastructure programme led by NGN, Cadent, and National Gas, aiming to establish a hydrogen network across northern England. By connecting hydrogen producers, users, and storage facilities through a mix of new and repurposed pipelines. ECH will support industrial and commercial decarbonisation while creating significant economic and employment opportunities.

During RIIO-GD2, NGN completed the Pre-FEED study, confirming hydrogen’s viability and market potential. In March 2024, NGN applied for additional funding under the NZASP mechanism to progress to the Front-End Engineering Design (FEED) phase. Further investment from NGN’s UIOLI allowance supported preparatory work and regulatory engagement to advance the project toward delivery. This included responses to clarifications sent by Ofgem in the third and fourth quarters of 2025, along with the submission of a proposed list of deliverables. As a result, a draft determination was published on March 28, 2025 indicating support for funding the scheme and initiating a month-long consultation. Ofgem made their final decision on June 20, 2025, approving full funding for the scheme and allowing the project to move forward to the FEED phase.



Figure 7 – East Coast Hydrogen Proposed Routing

Costing the Carbon Commitment

The Costing the Carbon Commitment project identified cost optimal pathways to decarbonising the UK energy system by 2050, adhering to the UK Government carbon budgets. The project identified principal factors driving the cost of different credible decarbonisation routes and provided recommendations on the low regrets interventions that should be prioritised by policy and decision makers to enable fair transition to clean energy systems. The outputs of this project have been used to inform the scope and development of the navigator project which is outlined below.

Navigator

The [Navigator Project](#), funded through the NIA, builds on previous strategic work to address the growing need for regionally tailored energy planning tools. As the UK transitions to net zero, energy systems are becoming increasingly complex, requiring integrated, locally informed approaches.

Navigator is developing a whole-system modelling tool to support planners across gas, electricity, heating, and transport sectors. Designed for use by GDNs, local authorities, and policymakers, the tool enables users to explore multiple decarbonisation scenarios, assess trade-offs, and identify robust, region-specific strategies. Its emphasis on usability and transparency also supports wider stakeholder engagement in shaping the energy transition.

Blending Implementation Programme

The [Blending Implementation Programme](#) is a 12-month collaboratively NIA-funded initiative led by Cadent, NGN, WWU, SGN, and National Gas, with project management by KPMG. Launched in October 2024, the project aims to define the market and operational changes required to enable hydrogen blending into the UK gas network.

Key deliverables include a Uniform Network Code (UNC) pre-modification report and an operational implementation plan, supported by cost and resource analysis. The programme is assessing necessary adjustments to market arrangements—such as capacity, nominations, and charging—and identifying impacts on network assets, systems, and workforce capabilities. Stakeholder engagement is central to shaping the final design, which will be submitted through the formal UNC modification process.

Green Gas Taskforce

The Green Gas Taskforce is a collaboration between ten of GB's largest Biomethane generators, shippers and traders, all five British gas networks and four important industry organisations. The group was set up in October 2024 and since then has gained real momentum in the green gas industry. The Taskforce will produce a series of key reports and analysis outlining the scope for growth of biomethane and the significant contribution it can deliver to the decarbonisation and energy security of the UK. NGN are currently leading an NIA-funded report for biomethane in HGVs. This research paper will help to influence policy decisions in the transport sector. The Taskforce sees the gas network crucial to Great Britain's future in energy. A recent feedstock study shows that between 50 and 90 percent of the network could be run on biomethane by 2050, producing up 120TWh.