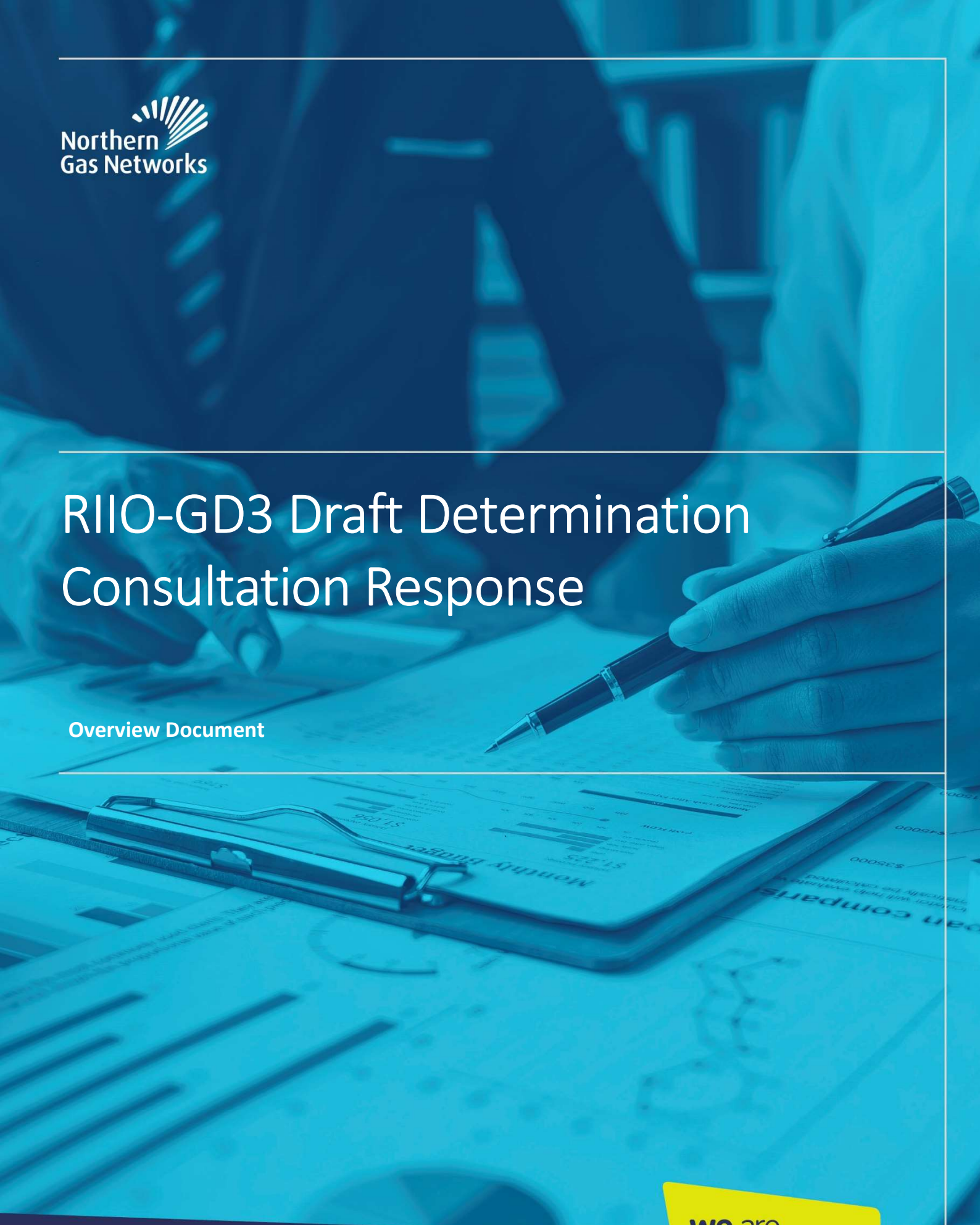
Northern Gas Networks

RIIO-GD3 Draft Determination Consultation Response

Overview Document



we are the network

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General Questions

Question 1. We would welcome any views on the enduring role of the ISGs during RIIO-3 and for future price controls.

The Independent Stakeholder Group (ISG) ensures our business planning remains responsive to current and future customer and stakeholder needs. Ofgem has acknowledged the ISG's pivotal role in shaping RIIO-GD3 company plans through independent challenge and scrutiny, and we fully support this view.

As the only gas distribution network to maintain the Customer Engagement Group on an enduring basis, we have benefited from ongoing scrutiny, with its annual reports validating our performance against commitments and guiding meaningful engagement.

Our ISG's continuous involvement since the RIIO-GD2 planning process has been invaluable, contributing to our positive Stage C BPI reward and enhancing our RIIO-GD3 business plan. We recommend extending this enhanced stakeholder strategy into the next price control period.

During RIIO-GD3, the ISG should continue to challenge performance against business plan targets and ensure companies adapt to evolving customer needs. We welcome Ofgem's proposal to mandate ISGs on an enduring basis and support a requirement for regular, public reporting to promote transparency and timely evidence gathering on stakeholder influence.

Outputs & Incentives Questions

Question 2. Do you agree with our proposed position on the Environmental Action Plan and Annual Environmental Report ODI-R for RIIO-3?

Yes, we agree with the proposed position. We request that the RIIO-3 Environmental Reporting Guidance is provided at the earliest opportunity to ensure that networks can commence collecting any necessary data to ensure compliant reporting, where new reporting requirements are introduced which were not present during RIIO-2. The RIIO-3 Annual Environmental Report Key Performance Indicators (KPIs) should also focus on material environmental performance aspects and be suitably normalised to enable effective comparative analysis of network performance.

Question 3. Do you agree with our consultation position to create a new common mechanistic PCD for ZEV and associated infrastructure costs?

Yes, we agree with this consultation position. We have no objection to the creation of a new common mechanistic Price Control Deliverable (PCD) for Zero Emission Vehicles (ZEV) and associated infrastructure costs. The most important factor in determining our vehicle investment strategy is ensuring that our operational vehicles are fit-for-purpose and sufficiently robust and resilient to ensure we can always meet our customer service and emergency response requirements. We seek to decarbonise our vehicle fleet and have established a highly ambitious target to operate a zero-emission vehicle fleet by 2031 which we recognise will be difficult to achieve, but it is important to our stakeholders that we demonstrate ambition in this area.

Our vehicle replacement strategy remains unchanged from that presented in our RIIO-GD3 business plan (ref: page 24 of our Environmental Action Plan). In summary, we will:

- Replace 557 vehicles during RIIO-GD3 according to our fleet replacement policy, targeting on average six years of operation or 100,000 miles to maximize efficiency and reduce costs to customers.
- For the 230 vehicles we plan to purchase for our First Call Operatives and other support functions we aim to buy 100 electric vans (43%) and 18 plug-in hybrid vans (8%), with the remainder (49%) being diesel. The 100 electric vans save approximately 550 tCO2e during RIIO-GD3 compared to the current diesel vehicles in use. Our vans are assigned to individual engineers who take them home each night for on-call response so each of the electric vans will be supported by the installation of an electric charger at the home of the engineer to ensure the vehicles can be charged outside of working hours to ensure no loss of productive time. The costs for these chargers are of low materiality ([redacted]) and were not included with our submitted vehicle investment costs so we request that the PCD allows us to recover these costs.
- For our more specialised vehicles with higher mileage requirements, purchase 303 new diesel vans as there is currently no suitable zero-emission equivalent and due to public and home charging challenges. These vehicles will be more fuel efficient and deliver carbon savings.
- Purchase 13 hybrid cars, eight internal combustion engine (ICE) 4x4s, one ICE HGV type vacuum excavation vehicle, and trial two hydrogen fuel cell vans should they become available.
- All vehicles will be purchased with none leased.

We note that in paragraph 4.23 of the RIIO-3 Draft Determination Overview Document that Ofgem considered that costs submitted by GDNs for electric vehicle (EV) charging infrastructure were minimal. Furthermore, Table 2 within this document identified that we had not submitted any costs for EV charging infrastructure. Please note that during RIIO-GD2 we have already installed a network of 53 chargers across our portfolio of offices and depots to support future EV deployment. To further support the use of electric vehicles our RIIO-GD3 business plan included investment proposals to expand our electric vehicle charging network with three rapid chargers (50kw+) strategically placed across our properties to ensure the resilience of our business operations. The costs for these three chargers totalled [redacted] but were included under property costs (see Section 6.4.8 of our RIIO-GD3 Business Plan).

Confirmation of our RIIO-GD3 investment plans are provided below. Acronyms used include:

- LCV = Light commercial vehicle
- ICE = Internal Combustion Engine
- EV = Electric Vehicle
- PHEV = Plug-in Hybrid Electric Vehicle
- HYB = Hybrid
- E&I = Electrical and Instrumentation

Vehicle Type	Fuel	Vehicle Weight Category	Typical Job Role	Average Annual Mileage	Average Unit Cost* (2023/24 prices)	Number to be purchased in RIIO-GD3
Small LCV	ICE	Up to 1.30t	N/A	N/A	N/A	0
	EV				N/A	0
Medium LCV	ICE	1.30t - 1.74t	Customer Care / Support / Apprentice	10,000-15,000	[redacted]	0
	PHEV				[redacted]	18
	EV				[redacted]	0
Large LCV Type 1: Front wheel drive van	ICE	1.75 - 3.50t	First Call Operatives / Network Maintenance E&I	10,000 – 15,000	[redacted]	138
	EV				[redacted]	100
Large LCV Type 2: Rear wheel drive van	ICE		Network Maintenance Mechanical & Site Pride and Special Operations Team	15,000	[redacted]	63
Large LCV Type 3: PTO enabled van	ICE		Emergency Repair, Connections & Special Operations	12,000	[redacted]	171
	Hydrogen				[redacted]	1
Large LCV Type 4: Dropside vehicle	ICE		Support driver	20,000	[redacted]	43
	Hydrogen				[redacted]	1
4x4	ICE	n/a	Network Maintenance Pipelines	26,000	[redacted]	8
Car	HYB	n/a	Network Maintenance E&I and Pipelines	24,000	[redacted]	13
HGV Vacuum Excavation Vehicle	ICE	>7.5t	Special Operations	c.10,000	[redacted]	1

Table 1 – Vehicle Investment Summary

**Average unit cost is inclusive of vehicle purchase price and costs of vehicle conversion to NGN specification but exclusive of overhead allocation.*

This is a vehicle purchasing breakdown by year, including number of vehicle units purchased per year:

Vehicle Type	Fuel	2026/27	2027/28	2028/29	2029/30	2030/31	Total
Small LCV Up to 1.3t	ICE	0	0	0	0	0	0
	EV	0	0	0	0	0	0
Medium LCV 1.3t - 1.74t	ICE	0	0	0	0	0	0
	PHEV	0	0	0	18	0	18
	EV	0	0	0	0	0	0
Large LCV Type 1 1.75 - 3.5t	ICE	18	28	30	18	44	138
	EV	10	15	20	30	25	100

Large LCV Type 2 1.75 - 3.5t	ICE	13	25	0	6	19	63
Large LCV Type 3 1.75 - 3.5t	ICE	16	16	0	31	108	171
	Hydrogen	0	0	1	0	0	1
Large LCV Type 4 1.75 - 3.5t	ICE	0	10	18	15	0	43
	Hydrogen	0	0	1	0	0	1
4x4	ICE	0	0	4	4	0	8
Car	HYB	13	0	0	0	0	13
HGV Vacuum Excavation Vehicle	ICE	0	0	1	0	0	1

Table 2 – Vehicle Investment Costs by Year

Vehicle unit costs, including the cost of the base vehicle and associated conversions, have been derived based on prices received during tendered vehicle purchase events and as such represent real-world costs, including discounts at that time. Vehicle unit costs have increased on average 27% compared to early RIIO-GD2 reflective of market rates.

This is our RIIO-GD3 vehicle deployment rationale:

Vehicle Type	Fuel	Rationale
Small LCV	ICE / EV	We have seen over recent years due to advances in technology vehicle size and weights have increased to accommodate new equipment. There are limited number of small LCV (<1.3t) vans available on the market. Currently there is no vehicle in this category suitable to support our functions.
Medium LCV	PHEV	Versatile and resilient lower emission vehicle option with longer mileage range suitable for use in both rural / sparsely populated areas and urban areas to match characteristics of distances travelled and availability of public charging infrastructure. Some of these vehicles will be returned to NGN facilities overnight to allow charging via existing NGN EV chargers installed during RIIO-GD2.
Large LCV Type 1	ICE	Use in rural / sparsely populated areas where distances travelled are greater, there is lower density of public charging infrastructure and where the operative is not able to accommodate a home charger to support robust vehicle charging with on-call requirements. Home charging is restricted on 3.5t vehicle type due to the vehicle size and lack of space on personal drive to park and charge vehicle.

	EV	Suitable for larger urban areas (primarily cities such as Leeds) where distances travelled are shorter thereby matching mileage range of vehicle and there is a greater density of public charging infrastructure, and also where operative can accommodate a home charger to support robust vehicle charging with on-call requirements.
Large LCV Type 2	ICE	No available zero emission alternative which has an appropriate range, payload and towing capabilities capacity. Home charging is restricted on 3.5t vehicle type due to the vehicle size and lack of space on personal drive to park and charge vehicle.
Large LCV Type 3	ICE	No available zero emission vehicle with Power Take Off for tooling and equipment. In the absence of this, diesel generators would have to be towed to site to power equipment which would be counterproductive and restrict the ability to tow an excavator which would result in additional travel. Home charging is restricted on 3.5t vehicle type due to the vehicle size and lack of space on personal drive to park and charge vehicle.
	Hydrogen	We anticipate from market discussions that a hydrogen fuelled vehicle of this category may become available during RIIO-GD3 and if so, we would wish to purchase one to test it in our operations to determine the suitability.
Large LCV Type 4	ICE	No available zero emission vehicle alternative for dropside vehicle. Home charging is restricted on 3.5t vehicle type due to the vehicle size and lack of space on personal drive to park and charge vehicle.
	Hydrogen	We anticipate from market discussions that a hydrogen fuelled vehicle of this category may become available during RIIO-GD3 and if so, we would wish to purchase one to test it in our operations to determine the suitability.
4x4	ICE	These vehicles are used by Pipeline and E&I operatives to access rural pipe and electrical instrumentation. No available zero emission alternative which has appropriate mileage range and off-road capability to ensure resilience. Vehicles are high mileage, have network wide roles and are required to be on -call, including rural areas where there is limited public charging infrastructure.
Car	HYB	Vehicles are high mileage and have network wide and on-call roles. Areas mainly travelled include rural areas where public rapid charging

		infrastructure is limited. Hybrid is an appropriate fuel choice to provide a resilient low emission vehicle for this role.
HGV Vacuum Excavation Vehicle	ICE	No current or reasonably foreseeable alternative to ICE for this size and specification of this specialised vehicle.

Table 3 – Vehicle Deployment Rationale

Please refer to the accompanying Ofgem provided spreadsheet [redacted] for further details of our RIIO-GD3 vehicle investment plans.

Question 4. Do you agree with our proposed approach to measuring Baseline Network Risk Outputs and our application of the NARM mechanism?

Yes, we agree with Ofgem's proposed approach to measuring Baseline Network Risk Outputs on the Long-Term Risk Benefit basis, in line with the latest Methodology updates – this provides a much better assessment of risk reduction. It provides some comparability against cost of intervention and will make the NARM mechanism more relatable and easier to understand for key stakeholders. We broadly agree with the application of the NARM mechanism. It is crucial to have a robust and transparent method for assessing network risks to ensure that the infrastructure remains reliable and resilient. By implementing a clear framework for measuring these risks, you can better prioritise investment and maintenance activities, ultimately enhancing the overall performance and safety of the network. This approach aligns with the goal of maintaining a high standard of service, while also undertaking essential investments to ensure compliance, security of supply, safety and leakage reductions.

The NARM mechanism was set up to allow the measurement and comparison of risk across asset classes on the GD networks. This was to facilitate strategic decision support and risk trading of investments within price control periods in-line with good asset management practice.

The NARM mechanism uses statistical approaches, company / industry data and assumption applications where necessary to assess risk at an asset system level. Whilst the NARM mechanism is a critical piece of modelling to support strategic decision making, it does not replace the rigour of bottom-up, engineering based and data driven asset management investment decision making within distribution networks. Whilst GD networks strive to ensure the accuracy of our models, the statistical nature and application of assumptions mean that the risk and risk benefits are a representation and not always reflective of reality. We consider the NARM mechanism to be a good representation and facsimile tool to use for initial top-down strategic planning support and also risk reporting, but as seen in our EJP submissions, this requires robust engineering challenge and justification to compliment it.

We reviewed the Baseline Network Risk Output (BNRO) proposals contained within the Draft Determination, NGN Company Annex, Table 6. We have not been able to fully align the contents of Table 6 with the remaining commentary within the Draft Determination and our original NARM BPDT submission. We have therefore produced a similar table to show the BNRO position based on our interpretation of the Draft Determination outcomes. This is compared with our original submission and Ofgem's Table 6 contents:

	R£m			
Asset Type	Ofgem Assessment (DD)	NGN Original Submission (A1)	NGN's interpretation of DD	Assumptions
LTS Pipelines - inline inspection	0.00	0.00	0.00	*LTS A3*
LTS Pipelines - Non inline inspection	0.00	0.00	0.00	*LTS A3*
Iron Mains	137.77	140.58	111.67	*Assumed all T3 disallowed. T2B and >30m Iron allowed A1*
Steel Mains	229.39	227.74	802.37	*2ST A1*
Other Mains	0.0000	0.0007	0.0003	*6.94km of PE allowed A1.*
Services	105.63	105.63	469.86	*T3 disallowed. T2B, 8ST, Policy/Condition allowed A1. 2ST A1.*
Risers	5.31	0.00	5.31	*Risers funded via A1; only steel riser replacements allowed.*
Offtake Filters	0.00	6.67	0.00	*All disallowed.*
PRS Filters	0.00	33.77	0.00	*All disallowed.*
Offtake Pressure Control	12.84	11.40	4.04	*Assumed 1 replacement allowed, 1 refurb allowed. Only primary asset interventions treated as A1.*
PRS Pressure Control	0.00	20.57	4.05	*Assumed 1 replacement allowed, 1 refurb allowed. Only primary asset interventions treated as A1.*
Offtake Pre-heating	9.29	9.29	9.29	*Assumed all OT interventions allowed A1.*
PRS Pre-heating	28.23	40.20	30.57	*Assumed 6 replacements allowed and all 23 refurbs allowed. Only primary asset interventions treated as A1.*
Odourisation & Metering	60.35	60.51	60.40	*2 Ultrasonic meter replacements disallowed. Other interventions allowed.*

District Governors	931.75	931.75	931.75	*DG interventions allowed A1.*
I&C Governors	0.33	0.33	0.33	*I&C interventions allowed A1.*
SG Governors	5.26	5.26	5.26	*SG interventions allowed A1.*
TOTAL	**1526.15**	**1593.70**	**2434.91**	

Table 4 – BNRO Comparisons

The change causing the most significant variation in BNRO is inclusion of <=2in steel mains and associated services under A1 NARM. We detailed in our Engineering Justification Paper A22.l.NGN our position on <=2in steel, concluding that due to mandatory nature of this workload its funding should be aligned to Tier 1 or Tier 2A mains and services. If, however, we do continue treating <=2in steel as contributing to the NARM BNRO, then the costs for this work must also migrate to the NARM Funding Adjustment and Penalty Mechanism, to ensure Unit Cost of Risk is aligned with funding for all asset interventions that contribute to NARM targets. Similarly, this also applies to costs associated with Riser interventions, as the risk reduction associated with the Riser interventions also migrated from our originally proposed A3, to A1.

Finally, we assume that Ofgem agreed with our proposal to fund civil and E&I interventions on Offtake and PRS sites outside of the NARM Funding Adjustment and Penalty Mechanism, therefore classing them A3. We also continue to assume that Low NOx Preheating interventions are also treated as A3.

Question 5. Do you agree with our proposed approaches to calculating the funding adjustments and to the application of penalties?

Key concerns remain about the Clearly Identifiable (CI) Mechanism, especially regarding how CI elements are selected and processed in cases of over- and under-delivery. We already expressed concerns about the comparison between a network level and programme level Unit Cost of Risk (UCR) and would like to reiterate – these are not comparable. While the current CI Mechanism allows Ofgem to apply a fair and pragmatic judgement, it also introduces subjectivity and hampers effective scenario planning and risk trading, which was the initial intention of the mechanism. Transparency is also lacking for justification requirements; current guidance only mentions an "independent justification assessment" without specifying who conducts it or how. Lastly, there are worries about double penalties, as the NARM Handbook indicates both a penalty at network under-delivery level and a separate 2.5% penalty for unjustified CI under-delivery. This was clarified during a NARM Working Group on the 11th of August, but we consider that further amendments to the Handbook are required to ensure that clarifications are captured and recorded.

We have commissioned Frontier Economics to undertake a Monte Carlo analysis[1] of the overall regulatory package for RIIO-3 at Draft Determination. The analysis shows that a notional GDN would expect on average to underperform by 0.00014% of RoRE. In 90% of iterations in the simulation, NARM performance falls between -0.089% and 0.088%. This small asymmetry is unsurprising given

[1] See 'Expected performance modelling for RIIO-GD3' appended with this response.

the framework Ofgem has proposed with a 2.5% penalty imposed on unjustified underperformance but no corresponding reward.

However, we consider this result reflects a very conservative approach, as we do not have information on how Ofgem will apply its judgement in its ex-post review of NARM in practice, with actual results likely being more skewed to the downside. The restrictions imposed by the CI Mechanism make this downside more likely and we urge Ofgem to continue to engage industry ahead of FD to collaboratively agree its practical application and clarity of guidance.

Question 6. Do you agree with our proposed approaches to improving the NARM framework?

We agree with the requirement for an Information Gathering Plan (IGP) – a lot of the principles for the data gathering requirements are detailed in the NARM Methodology, but an IGP can be further developed to include GDN specific detail. However, we will require further guidance from Ofgem on the required detail and granularity of this, with the expectation that this will not significantly increase regulatory burden. Similarly, we agree with the requirement for Engineering Guidance Documents (EGD) to detail the commonality of approach to assessing condition data across GD networks. We consider that there is an opportunity to merge the IGP and EGD considering their complementary nature and to reduce regulatory burden and we urge Ofgem to consider this.

We also agree with having a common list of asset categories and pursuing a consistency of approach to asset engineering assessment. This is already in progress with engineering assessments undertaken as part of the NARM Methodology Category 2 updates in 2024 and consistency of approach to A1, A2, A3 categorisation being undertaken across the GDNs.

Ofgem have also indicated a desire to expand the reach of the NARM mechanism. For Gas Distribution, NARM was initially formulated for ALL Network assets (including E&I). Assets have been categorised as A3 or A2 where they are funded under a separate mechanism, ring-fenced project; or where the SRWG has determined that the model is not working as intended and reflecting realistic risks. Therefore, we are comfortable with the coverage of NARM for GD (taking into account the assets we discussed moving to A3 within our RIIO-GD3 business plan) and do not consider it a priority to expand the scope of NARM for the sector.

Question 7. Do you agree with our proposal for the physical security PCD?

We have no comment on this as it only applies to ET and GT.

Policy Questions

Question 8. Do you agree with our approach taken to review of the Climate Resilience strategies?

No, we are not supportive of the overall approach taken as detailed below.

Disallowance of RIIO-GD3 Capex Investments

Ofgem noted that all RIIO-3 Climate Resilience Strategies submitted met minimum expectations, with those of the gas distribution networks identified for individual praise for their content and approach. All gas distribution networks have had substantial (average c.40%) Capex allowance reductions at Draft Determination compared to their RIIO-3 business plan submissions. Such Capex investments

form the building blocks of networks' Climate Resilience Strategies. Some of these disallowances, for example Preheating and E&I upgrades for NGN (which incorporated provision of enhanced backup power provision at several of our key sites and was identified in our Strategy as a key mitigation activity (CR7)), will have an inevitable material negative impact on network climate resilience both in the near and long term. The disallowances undermine network Climate Resilience Strategies however the impact of these does not appear to have been considered in detail by Ofgem in their review of the strategies.

The particular example of the Capex disallowances relating to our proposed RIIO-GD3 investments in enhanced back-up power provision (as referenced above) should be reviewed in light of our case study of the impacts on our region of network power outages during Storm Arwen (see NGN RIIO-GD3 Climate Resilience Strategy, Case Study 2, page 7) and the recent network electricity outage event at Heathrow Airport. Please refer to NGN Annex Q6 for further detailed discussion of our response to the Draft Determination engineering assessment. Disallowance of these investments will materially negatively impact the deliverability of our Climate Resilience Strategy and the long-term resilience of our network.

RIIO-GD3 Climate Resilience Reporting

We are supportive of the overall proposed approach to climate resilience reporting during RIIO-GD3.

Ofgem have confirmed their SSMD expectation that network companies will provide updates on their progress in climate scenario planning, stress-testing for high-impact, low-probability climate hazards, and adaptation pathways as part of their annual reporting. It is stated that these updates should be completed by the second annual reporting submission in 2028.

All networks currently publicly report on climate change risks and adaptation activities via the Adaptation Reporting Power[2] mechanism and associated regular reporting rounds. We request that Ofgem proactively engages with gas networks to inform the development of the reporting guidance to ensure that further reporting is practicable, meaningful and additive to minimise reporting burden on networks.

Question 9. Do you agree with our views on the Workforce Resilience Strategies?

No, a key aspect of our workforce resilience strategy is the retention of highly sort after skillsets which are intrinsic to our direct service provider model and critical to delivering the high levels of cost efficiency and service performance.

We refer in our response to NGNQ6 our disagreement with Ofgem's decision to reduce the Mandatory Repex by £14.4m which is required to enable NGN to mitigate and manage against the risks of loss of Direct Service Providers (DSPs), which offer a valuable and highly sought after capability. The strategy and expenditure must be considered concurrently as removal of the allowance impacts our ability to deliver our wider workforce resilience strategy.

Our strategy addresses future challenges by retaining staff, tackling skill shortages, and attracting new talent. We remain committed to workforce diversity, as highlighted in paragraph 4.75 of the Draft

[2] https://www.gov.uk/government/publications/climate-adaption-reporting-fourth-round-energy

Determinations Overview, and are developing an Inclusion and Belonging Strategy to ensure our workforce reflects community diversity and addresses inequality, including the gender pay gap. This strategy will align with and link our Wellbeing, People and Planet, and Workforce Resilience Strategies.

Data will be key to ensuring that we understand the demographics of our current workforce and that we can measure performance against our commitments and targets. We recognise that much of this data will be personal or sensitive in nature and therefore we must build and maintain trust with our current and future colleagues to encourage increased willingness to share this data with us. Data and transparency will therefore form one of the three pillars of the Inclusion and Belonging Strategy with an aim to improve upon the data we are currently collecting and set clear and measurable goals for improvement. Since we submitted our Business Plan in December 2024 we have continued to work with EU Skills and the other GDNs on the collation of workforce resilience metrics.

Question 10. Do you agree with our views on the Supply Chain Resilience Strategies?

No, Ofgem state in paragraph 4.80 that "*none of the network companies proposed specific measures in relation to supply chain resilience. We urge all network companies to do more and, where appropriate, collaboratively in this space*" This is incorrect.

Our supply chain strategy set out a comprehensive approach to ensuring supply chain resilience over RIIO-3 by focusing on eight key areas:

- Diversifying our suppler network
- Building resilient inventory management
- Harnessing the power of advanced technology
- Nurturing strong relationships
- Mapping the risks
- Strengthening transportation and logistics
- Maintaining maximum competitive tension
- Sustainability as a resilience strategy

Our strategy sets out key areas of focus under each of these eight areas, ensuring a holistic approach to supply chain resilience overall. We also set out some specific examples of measures that we have already, or plan to introduce to mitigate against supply chain risk that we have identified. Case Study 5[3] discusses a recent issue with our operatives moving to other utilities over and above our usual churn rate. It was identified that as the Iron Mains Risk Reduction Programme (IMRRP) drawing to close, combined with the wider uncertainty around the future role of gas, was impacting our ability to retain our Direct Service Providers (DSPs) and so we developed an innovative solution to incentivise DSPs to remain with NGN until the end of the IMRRP. This solution not only helped to bolster competitive tension for the work, but also helped mitigate against the risk of non-compliance were we unable to meet the requirements set out by the Health and Safety Executive (HSE).

We also discussed in Case Study 6[4] the increasing focus on social and environmental issues and set out several steps that we are taking in this area including actions such as mandatory pre-qualification

[3] See page 34 of our Workforce and Supply Chain Resilience Strategy
[4] See page 38 of our Workforce and Supply Chain Resilience Strategy

requirements, supply chain mapping, ensuring compliance with our Supplier Code of Conduct, plus taking a whole lifecycle analysis approach to procurement. Our intention in this area is to create solutions to ensure that we:

- Take steps to build sustainable and resilient supply chains beyond Tier 1
- Proactively identify and manage impacts on people caused by our procurement decisions
- Ensure our procurement activities do not compromise long-term environmental quality
- Create and reinforce sustainable procurement culture internally.

We therefore consider that our strategy did set out specific measures that we are already taking, or plan to undertake in RIIO-3, to mitigate against supply chain pressures and ensure resilience in this area and this must be reflected in Ofgem's assessment.

We are pleased that Ofgem considers that our overall supply chain strategy met the requirements and that respondents to the Call for Evidence did not raise any major concerns, however, recognition of the above reinforces the high quality of NGN's approach and business plan. We also consider that the ability to ensure cost allowance adjustments to capture Real Price Effects (RPEs) is vital to ensure companies are compensated for price increases over and above those that can be captured by the general price inflation index. We therefore welcome Ofgem's acknowledgement in this area and would refer to our response to Q18 for a fuller discussion on the RPE methodology.

BPI Questions

Question 11. Do you agree with the equal weightings applied per criteria/rating for the 'Clarity scorecard' and the 'Business Plan Commitments scorecard' for the Stage C assessment?

No, we consider that there is an imbalance between the weighting of the 'Stage C business plan commitments' and the Stage B assessment with 13bps available for stage c and 40 for stage b. NGN commissioned Oxera to assess Ofgem's RIIO-GD3 approach to setting the Business Plan Incentive (BPI). Oxera's full report - *BPI incentives at the RIIO-GD3 DD* - is appended to this document as supporting evidence. The implication of Oxera's report is that the 'Stage C business plan commitments' should be given a stronger weighting to bring them into greater alignment with the Stage B weighting. Within this report, it is demonstrated that the 'stretching performance' component is particularly underweighted and as such NGN do not agree with the current balance of weighting. NGN are concerned that the framework disproportionately rewards ex ante cost efficiency in business plans, while undervaluing post ante delivery of high-quality customer service.

This approach does not reflect NGN's historical performance, where we have consistently demonstrated industry-leading cost efficiency alongside exceptional service delivery. Independent analysis by Oxera[5] highlights several unintended consequences of the current incentive design:

- Overemphasis on Minimum-Cost Plans: The framework incentivises companies to propose business plans focused on lowest cost, rather than those that strike a balance between cost efficiency and high customer service quality.

[5] See document: BPI incentives at the RIIO-GD3 DD

- In-Period Risk and Reward Imbalance: During delivery, companies face greater risk exposure and potential rewards by prioritising cost reductions over service quality. For highly efficient operators like NGN, who already deliver strong performance, there is limited incentive to exceed the Output Delivery Incentive (ODI) targets set by Ofgem.

NGN urges Ofgem to undertake a comprehensive review of the Draft Determination incentive framework. We advocate for a more balanced approach that equally values ambitious, low-cost business plans and the delivery of high-quality service outcomes. Such a revision would better support informed decision-making, drive continuous business improvement, and ultimately enhance service for customers.

Question 12. Do you agree with the weightings applied per outcome for each sector for use in the Stage C - Business Plan commitments assessment?

No, as referenced in Q11 there is a need to rebalance the weightings across Stage B and C to provide an improved mechanism that rewards equally ambitious low-cost business plans and the delivery of high-quality service outcomes. As such the weighting proposed for Stage C requires readdress.

The Stage C assessment is subjective and Ofgem must apply it consistently to derive value from the business plans. Stage C of the Business Plan Incentive (BPI) comprises two components:

- Clarity: Evaluates the structure, accessibility, and coherence of the business plan.
- Commitments: Assesses the ambition of service offerings across net zero, resilience, and service quality.

Having reviewed the draft determinations, NGN commissioned Oxera to review the BPI incentives[6] and they found that stage C had:

- Limited Incentive Strength: The maximum reward for outstanding service quality performance is 13 basis points (bps), significantly lower than the 40bps available for cost efficiency under Stage B.
- Balanced Scorecard Dilution: Rewards are further diluted through a scorecard approach, with equal weightings across four criteria (deliverability, consumer value, stretching performance, and new proposals).
- Skewed Incentive Architecture: The current framework heavily favours cost reduction over service quality, both ex ante (during plan submission) and ex post (during delivery).

We reference our appended report, prepared by Oxera provides a comprehensive overview of the performance of GDNs on both cost efficiency and services performance, specifically section 4 of the report and Figures 4.2-4.7 present GDN performance from a cost and service perspective. Like Ofgem's approach to engineering justification analysis we consider significant weight should be placed on delivered past performance when assessing anticipated performance and notably:

1. Ofgem should not be seen to be rewarding companies at GD3 FD who have failed significant service standards in GD2.

[6] BPI Incentives at the RIIO3 DD

2. Ofgem must be consistent in how they assess commitments at the group and network level to avoid masking or rewarding poor performance.
3. A sufficient incentive for under delivery or poor performance must be explored.

This is particularly important given parallels with shortcomings observed in Ofwat's cost and service assessment practices since PR14, where over-reliance on optimistic forecasts created *perverse incentives* of chasing business plan rewards and left companies unable to invest adequately to maintain and improve service levels. A similar approach here would risk rewarding networks that failed to meet core service standards in GD2, such as the 1- and 2-hour gas emergency standard. That outcome would be unfair to consumers and damaging to Ofgem's credibility if it were to reward companies who failed these core service standards or those with significant overspend in GD2 but are now benchmarked favourably, noting this issue has significant implications at both the group and network level. Such an approach would be contrary to Ofgem's principal objective to protect the interests of existing and future consumers. Effective regulation requires that incentives and rewards are tied to demonstrable performance against required standards, which in turn ensures trust in the framework and supports desirable outcomes for consumers over the long term.

We note the ambitious plans that were submitted at GD2 and suggest Ofgem sense check how companies have performed in delivering against those outcomes and consider the actual delivered evidence on costs and performance commitments before finalising its Stage C assessment and weightings.

Managing Uncertainty Question

Question 13. Managing Uncertainty - Do you agree with the use of a default materiality threshold and its level?

Yes, we agree with the rationale for the default materiality threshold. The Default Materiality Threshold is proposed to be retained at the proposed adjustment, when multiplied by the TIM rate, should exceed 0.5% of annual average ex ante base revenue. This has been identified as being around £2.9m for RIIO-3 in 2023/24 prices for NGN, which we agree is likely to be proportionate to trigger a Re-opener.

Uncertainty Mechanisms Questions

Question 14. Do you agree with out proposed amendments to the CAM for RIIO-3?

No, we consider that the proposed changes to the CAM that are outlined in the consultation result in the CAM for RIIO-GD3 moving away from the original intention of the re-opener as it was introduced in RIIO-GD2.

In RIIO-GD2 it was intended that only *"the network companies only can trigger the CAM on a voluntary basis"*[7] and the proposed amendments introduce the ability for Ofgem to trigger this re-opener *"on the NESO's advice about a CAM proposal/opportunity that would be in consumers' interests".* This is a

[7] Page 69 of the RIIO-2 Final Determinations Core Document

significant change, but the practicalities of how this would work in practice have not been outlined, meaning there is a substantial amount of uncertainty for licensees.

Ofgem has not provided any guidance on how that process would work in practice. For example, we note that paragraph 6.12 states that all affected network companies must support the action to utilise the re-opener. At present we have no indication of how the process for gaining agreement will work and what steps will be taken should a company not agree, i.e. what options we have to appeal against an Ofgem and NESO determined decision to utilise this mechanism.

We consider that Ofgem should re-consult on the CAM, providing full details of how it envisages the interaction between Ofgem and the NESO, plus resulting impacts on companies.

Question 15. Do you agree with our proposed design of the NZARD UIOLI?

No. We disagree with how the NZARD allowance has been calculated and we disagree with the proposed £2m cap being retained. We also disagree with the limited scope for early development work on Hydrogen which we consider provides a narrow view of the range of future energy scenarios and is inconsistent with Ofgem's duty for enabling net zero.

1. ***Setting the NZARD Allowance***

Ofgem's approach to setting the NZARD UIOLI departs from the precedent that it set at GD2 when the allowance was conceived in collaboration with networks and was based on a % revenue. The method was defined after considering a plethora of early development work proposed by networks and ongoing consultation in the period between Draft and Final Determinations.

Networks have again clearly defined a suite of projects that cover the full spectrum of Net Zero challenges for gas networks, and which require early development work. Ofgem has made significant challenges to the scope and funding of these projects, however, Ofgem's approach to simply inflating allowances derived from a different cost base is incorrect and the GD3 allowance should be defined in the same way as for GD2 based on 0.25% total revenue.

We note that Ofgem has not simply inflated other metrics in the GD3 framework, such as ODI penalties, which were similarly calculated based on a percentage of revenue at GD2, in fact Ofgem has applied the same approach, simply now converting to an equivalent bps RORE. Ofgem has not outlined in its decision any rationale for simply inflating allowances and why it has departed from a well-set precedent for deriving such allowances in the RIIO framework.

We consider that the allowance should be set at a minimum 0.25% revenue as it was at GD2, however, maintain our argument to increase this to 0.35% for NGN to maintain parity with the allowances of larger networks.

2. ***£2m Project Cap***

We disagree that the £2m cap should remain as it is at GD2. The £2m cap should be adjusted for inflation or Ofgem should consider its removal to maximise the value individual projects can deliver. The £2m cap was set in the Net Zero and Re-opener Development Fund Governance Document which

was published on 30th March 20218 to avoid companies spending all their allowances on single projects, to ensure a full the scope of projects across net zero challenges would be progressed. By not adjusting the cap, companies are being subjected to real term price cap reduction. Also, adjusting the £2m current maximum cap for inflation would ensure companies are able to access project funding at the same level as when the UIOLI was introduced in RIIO-2 and ensures parity across the two price controls. Uplifting the £2m to 2023/24 prices from the 2018/19 price base would result in an equivalent cap of £2.49m per project.

- Paragraph 6.22 of the Draft Determination states that "*We propose that RIIO-3 NZARD allowances are set using the RIIO-2 funding levels, adjusted for inflation. While this is a change from our SSMD decision, we consider it is appropriate to increase the allowances to reflect inflation*." Notwithstanding our points above on how the allowance was calculated, there is a disconnect between the decision to uplift the funding allowance to compensate for inflation, but not the maximum cap.

Paragraph 6.23 of the Draft Determination states that many of the projects submitted exceeded the £2m threshold. For the avoidance of doubt, we can clarify that the projects highlighted in our Business Plan (relating to RESP coordination and engagement, network sectorisation, understanding disconnection & decommissioning, Hydrogen blending and Industrial & commercial hydrogen use) were examples of the types of projects that we would propose to use the NZARD UIOLI for and did not represent the final or entire list of projects. It is correct that all projects would remain within the maximum cap.

3. Hydrogen related projects

We note that paragraph 6.24 of the Draft Determination states that hydrogen-related projects are out of scope for the NZARD UIOLI mechanism, and as such, Ofgem does not consider larger allowances necessary. We do not agree with this position. The role of hydrogen in achieving the UK's Net Zero targets has been widely evidenced and features prominently in every credible future energy scenario. There is a clear and urgent need to undertake early-stage development work in this area, yet RIIO-3 currently lacks a suitable funding mechanism to support such activity. Gas Distribution Networks (GDNs) are still awaiting clarity on the design and specifications of the Hydrogen Transport Business Model (HTBM), which is currently intended for large-scale DEVEX funding and is not appropriate for the type of hydrogen preparatory work required.

Ofgem's position is misaligned with the UK Government's strategic direction, which continues to place hydrogen at the centre of its clean energy transition. This was most recently reaffirmed by the Department for Energy Security and Net Zero (DESNZ) in its Hydrogen Update to the Market (July 2025), describing hydrogen as "a central pillar of the UK's clean energy future."

Further evidence of the UK Government's commitment to hydrogen is found in the recent Hydrogen Blending into the GB Gas Transmission Network consultation, where DESNZ signalled its "minded to" position to consider enabling transmission blending of up to 2% hydrogen by volume. This follows the

[8] https://www.ofgem.gov.uk/sites/default/files/docs/2021/03/net_zero_and_re-opener_development_uioli_allowance_governance_document_30_march_2021.pdf

earlier distribution blending consultation, which received broad stakeholder support for enabling up to 20% hydrogen blending within GB's gas distribution systems.

The proposed removal of hydrogen funding from the NZARD allocation will prevent NGN and other GB Gas Transporters from leading and supporting projects expanding the robust evidence and knowledge base required to support UK government policy, regulatory development, and industry confidence. Without this support, the UK's ambition to become a leading hydrogen economy will be significantly compromised. We also consider this is contrary to Ofgem's net Zero duty if it does not enable funding to cover the full suite of future energy outcomes.

This approach is incompatible with recent public investment in major hydrogen initiatives, notably the East Coast Hydrogen project. Large-scale programmes such as this depend on a complementary range of smaller projects. These are essential to address emerging technical, safety, and operational questions—whether arising from the project itself, other hydrogen initiatives, producers, offtakers, regulatory engagement with the Health and Safety Executive, or developments across Europe.

To support the UK government, producers, and the wider industry, NGN must continue to undertake targeted early development net zero projects to evolve our decarbonisation approach and understand how our solutions interact with wider industry to deliver optimal outcomes for gas consumers. This work must be funded. We therefore propose that Ofgem reinstates the funding mechanism for hydrogen and hydrogen blending within the NZARD frameworks, to maintain momentum toward net zero and support the potential commencement of blending by 2028 and the gas industries required support for Clean Power 2030.

Question 16. Do you agree with our proposed design of the NZASP re-opener?

Yes, we agree with the proposed design of the NZASP re-opener. As outlined in our response to Q15 we consider that the interlinkage between the NZARD UIOLI and the NZASP re-opener is important and the ability to utilise the NZARD UIOLI to fund early development work prior to submitting a formal re-opener application should be retained to maximise efficiency in this area. We maintain, as outlined in q15 that NZASP should also include hydrogen projects to cover full scope of future net zero scenarios.

Question 17. Do you agree with our design proposal for the resilience re-opener?

Yes, we welcome the resilience re-opener for the RIIO-3 period. We note that the intention is to allow for adjustments to allowances were government or NESO require network companies to undertake resilience-related activities that are not anticipated at the start of RIIO-3. It is our understanding that NESO will be likely to designate additional Critical National Infrastructure (CNI) sites throughout the period and it is therefore important that we have the ability access to appropriate funding in period in order to respond to these decisions.

Question 18. Do you agree with our proposed approach to RPEs?

Yes, we are supportive of Ofgem's decision to continue with indexation of industry-specific costs to RPEs during the RIIO-3 regulatory period, in a similar manner as for RIIO-2. RPE indexation ensures that our efficiently incurred costs are recovered, which provides protection from exposure to exogenous input price fluctuations in period.

We noted in our response to the SSMC[9] and in our Business Plan[10] that we considered that there was scope to refine the basket of reference indices used for RPEs to better capture actual GD input price movements. We therefore are broadly supportive of Table 10 in the Overview Document which sets out the proposed indices to be added into the RPE methodology for RIIO-3. We would question the suitability of Timber (90/12) for inclusion within the basket however, given it is not a key input for GDNs. We would suggest that this particular index not be included in the RPE index basket for RIIO-3.

We note that in paragraph 6.60 Ofgem welcomes evidence on whether RPEs should apply to re-openers during RIIO-3. We are supportive of this approach. All networks have experienced relatively large swings in their real term allowances year on year during RIIO-2 due to the inflation and RPE volatility resulting from the macro-economic environment. With major policy decisions still awaited, such as the role of hydrogen in the future of home heating, the extent to which the various re-openers will need to be used during RIIO-3 is as yet unknown. Indexing allowances approved through the re-opener process affords additional protection that networks will not be subjected to real term allowance cuts in period should the industry be subjected to similar price volatility as we have experienced during RIIO-3. Where re-openers pertain to BAU activities such as street works and HSE policy, those elements are as equally exposed to RPEs as ex-ante baseline allowances. There is no reason why in such instances these elements of allowances, should be treated differently to original baseline allowances for the purposes of RPEs if Ofgem agree with the funding requirement for them in period.

Cost of Service Question

Question 19. Do you agree with our proposed approach to ongoing efficiency?

No, we do not agree with the proposed approach to ongoing efficiency and consider Ofgem's approach in setting the 1% is an error. Ofgem engaged Grant Thornton to conduct a quantitative growth accounting analysis, which suggested a broad ongoing efficiency (OE) range of 0.1% to 1.3%. Finding this too wide, without a clear rationale, Ofgem subjectively identified a narrower 'plausible' range of 0.7% to 1.3%, and adopted a mid-point estimate of 1.0%. NGN's submission included a 0.5% assumption, aligning with other GDNs.

Table 7 sets out the OE ranges at draft determination:

Organisations/ sectors	OE range proposed
Ofgem's range	0.7% - 1.3%
Ofgem's consultants' range	0.1% - 1.3%
GDN's	0.5%
GT	0.5%
ETO's	0.1% - 0.7%

Table 7 – Draft Determination OE Ranges

[9] See NGN's response to SSMC OVQ44
[10] See section 6.6.1

Ofgem set the ongoing efficiency rate at 1%, citing precedent. However, as set out in the Economic Insight report[11] appended with this response, NGN consider that Ofgem has made three errors in how it has chosen its proposed OE target at RIIO-3:

1. In setting its final OE target, Ofgem has erroneously relied on precedent of outcomes at previous regulatory decisions, rather than precedent of methods previously applied to determine those outcomes.
2. In calculating its OE range, Ofgem has erroneously:
   (ii) relied on incomplete business cycles; and
   (iii) removed three years from its analysis (2008, 2009, 2020), incorrectly referring to them as outliers.
3. Ofgem has placed disproportionate weight on unsubstantiated arguments to select a target from the upper end of the range, whilst failing to consider countervailing reasons to study the lower end of the range.

Relying on precedent of the outcomes of prior regulatory decisions, rather than precedent of method, results in regulatory decisions remaining unchanged over time even if the evidential basis for them has changed. The EI report has found that applying the RIIO-2 method to the latest data yields an OE range of -0.5% to 0.5%. In addition, by mistreating business cycles and outliers, Ofgem has erroneously inflated the upper bound of its "narrow" range to 1.3%. Following the correct and established treatment of business cycles and outliers would yield an upper bound of only 0.9%. Finally, only considering the reasons for setting an OE target at the top of the range, Ofgem are implicitly accepting a greater risk of underfunding networks at RIIO-3. Selecting a figure from the midpoint takes a more balanced approach and the resultant midpoint of Ofgem's "narrow" range is 0.7%.

Therefore, the chosen 1.0% mid-point of the range does not reflect the most probable (P50) estimate of expected productivity growth—particularly given the UK's persistently low productivity trends. Ofgem in part supports the 1% challenge set by referencing the influence of previous innovation funding and planned investments in IT&T, data, digitalisation, and innovation initiatives. Yet, for NGN, a significant proportion of proposed investment has been disallowed in IT & Telecom and in Electrical and Instrumentation, limiting the efficiencies we are able to deliver, if not remedied at FD.

Ofgem does not recognise that productivity metrics sourced from EU KLEMS data already incorporate the effects of innovation and technology, creating a risk of double counting. While OE may improve through cost savings or enhanced service quality, the link between Ofgem's expectations for service delivery and the feasibility of its OE assumptions remains unaddressed. In addition, Ofgem has not considered sector-specific variations in planned work—an approach it has applied in other areas such as the Totex Incentive Mechanism. This reinforces that OE is largely shaped by regulatory judgment, despite some of the available evidence pointing in a different direction.

[11] See Independent review of Ofgem's DD OE approach - 21-08-25 - STC

Innovation Questions

Question 20. Do you agree with our proposed NIA funding levels?

No, we disagree with the substantial cuts that Ofgem have made to the NIA allowances across companies and Ofgem's failure to fund green gas research, specifically hydrogen. We agree with Ofgem's pursuit of collaboration and the delivery of wider benefits to consumers. We suggest an alternative approach for achieving this for GDNs.

NIA Collaborative approach

Ofgem's allowed innovation funding is significantly lower than company proposals networks. We appreciate Ofgem has undertaken a comprehensive assessment of funding, based on company proposals, however, the current funding would limit the GDN's ability to deliver valuable sector wide innovation in GD3.

Historically, Innovation funding, consistent with other allowances, has been roughly apportioned on a network/revenue basis to account for the customer base (4:2:1:1) to ensure parity on progressing valuable research and development.

In reviewing company proposals in the round, we observe that there are many overlapping themes and potential projects that are being assessed independently when setting allowances. We consider all of these projects add benefit. We suggest a more formalised collaborative approach in GD3, where Ofgem assigns an industry allowance funded proportionally on a 4:2:1:1 split to take forward the various themes. This could be managed through the Future Energy Networks with support from the advisory services that Ofgem propose. This would allow for a collective approach to governance reporting and value of innovation and also avoid duplication of work between networks.

NIA should facilitate wider learning as Ofgem outlines. This approach would help bridge the cost gaps identified between company allowances at Draft Determination, minimise cost to consumers and deliver wider benefit

NIA Allowances

We outline specific areas that Ofgem must reconsider ahead of Final Determination and reflect on the rationale used to remove green gas research and innovation funding from the Draft Determination. Specifically, we note the current, and proposed, HTBM is not an appropriate funding stream to support agile, early phase innovation projects outlined in Networks business plans, with the HTBM focus being on large scale strategic infrastructure projects. Some examples of the specific criteria required to secure funding are:

- Technology Readiness: Core production technology must be commercially proven (Technology Readiness Level 7 or more).
- Project Scale and Pipeline: Projects should be at a scale that supports the development of a hydrogen pipeline network, not just transport within specific locations.
- Offtakers: Projects must identify at least one qualifying offtaker, who is the end-user or an intermediary purchasing hydrogen for end-use, and not a "risk-taking intermediary," exporter, or someone injecting into the gas grid.

There are several other criteria that also make clear that research, early stage and lower TRL hydrogen research that networks typically undertake through NIA would not be supported by HTBM. Neither would HTBM or other mechanisms provide the rapid agile response that historically has been required to respond quickly to the needs of government or regulators, for instance the HSE. NGN believe there is an ongoing need for the agile approach afforded under NIA to support hydrogen research and innovation activities. Without such funding larger projects which rely on these smaller works will be impacted.

The timescales for delivery set out in the HTBM are not consistent of those for NIA which entirely alters the approach required for delivering NGNs portfolio proposed within the business plan. We therefore consider the NIA criteria set is too narrow to effectively prepare for, and deliver, Clean Power 2030, of which the Draft Determination is very positive about. Specifically, around the role of hydrogen in achieving Clean Power 2030 via flexible power generation, blending and storage of gas to maintain a resilient energy supply for Great Britain.

As stated in the recent UK Government report "The UK continues to support groundbreaking research and innovation in hydrogen throughout the value chain." [page 27 – Research and Innovation section]. Clearly the UK Government recognise and welcome the value of research and innovation in the hydrogen space. As such the GB gas industry has a strong role to play in developing this research and progressing hydrogen technologies and solutions which support and enable the UK government's ambition. In our view it is therefore essential Ofgem recognise this Government strategy, the value gas networks play and provide the necessary agile innovation funding support to allow such research to be undertaken.

The reduction in NIA allowance provision will also result in lesser collaboration across the Gas and Electricity Networks especially for larger value projects which impacts the network's ability to lead or even join some projects. We are supportive of Ofgem's proposed 'Programmatic Approach' but question gas networks ability to actively participate in the challenge setting and delivery; allowances must support this collaboration. The narrowing of the NIA criteria and applicable funding also obstructs gas network's ability to support any future NESO innovation projects which require hydrogen innovation and research, given these now sit out of scope of the NIA allowance.

NGN do not agree the use of uncertainty mechanism provides an appropriate level of pace and agility to respond to the needs of NESO, UK Government of wider industry. Whilst these mechanisms are welcome more broadly, they cannot replicate the value the NIA framework brings and as such both funding approaches are needed to maintain the pace of innovation needed.

In removing support for hydrogen research and innovation Ofgem puts the gas industry at significant disadvantage given the need for continued innovation support in this area to underpin the industries decarbonisation efforts, to support the Clean Power 2030 and growth missions set out by the UK Government. This would also see the gas industry further fall behind the electricity industry which continues to see significant support across all aspects of electricity decarbonisation.

Question 21. Do you agree with our approach to the future of gas-related workstreams?

NGN does not support Ofgem's proposed removal of funding for hydrogen-related research and innovation. We believe this decision represents a significant misstep and is misaligned with the UK

Government's strategic direction, which continues to place hydrogen at the core of its clean energy transition.

The Department for Energy Security and Net Zero (DESNZ) recently reaffirmed hydrogen as "a central pillar of the UK's clean energy future." This commitment is further evidenced in the recent Hydrogen Blending consultation, where DESNZ expressed a "minded to" position to consider enabling transmission blending of up to 2% hydrogen by volume. This builds on a previous consultation that received broad stakeholder support for blending up to 20% hydrogen within the GB gas distribution networks.

Removing innovation funding for early-stage hydrogen activities will hinder NGN and other GB Gas Transporters from expanding the evidence base necessary to support government policy, regulatory development, and industry confidence. Without this support, the UK's ambition to become a global leader in hydrogen will be compromised.

This approach also conflicts with recent investments in major hydrogen initiatives, notably the East Coast Hydrogen project. Large-scale programmes such as this rely on a complementary ecosystem of smaller, agile research and innovation activities. These are essential to address emerging technical, safety, and operational challenges—whether arising from the project itself, other hydrogen initiatives, producers, offtakers, regulatory engagement with the Health and Safety Executive, or developments across Europe. Without parallel agile evidence generation, it will be impossible to strengthen the hydrogen safety case and provide government with the assurance needed to proceed at pace.

NGN does not believe that uncertainty mechanisms alone can deliver the agility and responsiveness required.

To support government, producers, and the wider industry, NGN must continue to undertake targeted research and innovation to evolve our decarbonisation approach. This work requires dedicated funding. We therefore urge Ofgem to reinstate hydrogen and hydrogen blending funding within both the NIA and NZARD frameworks, to maintain momentum toward net zero and support the potential commencement of blending by 2028, as well as the broader Clean Power 2030 objectives.

We also wish to highlight that the Hydrogen Transport Business Model (HTBM) is not a suitable funding mechanism for the innovation projects outlined in network business plans. HTBM is designed for large-scale strategic infrastructure, whereas NIA supports fast-paced, smaller-scale innovation, and NZARD UIOLI enables early-stage development. The delivery timescales and scope of HTBM are fundamentally different, and do not align with the requirements of NGN's innovation portfolio.

Furthermore, we consider the current NIA and NZARD UIOLI criteria too narrow to effectively support the interactions and innovation required to deliver Clean Power 2030. NGN believes hydrogen and future-of-gas-related research will be essential to achieving this mission. If Ofgem maintains its current position, NGN and the wider gas industry will be unable to respond to these challenges in a timely and effective manner.

While we welcome the use of uncertainty mechanisms as part of a progressive funding landscape, it is important to note that submissions under this framework will rely heavily on prior work funded through NIA and NZARD. Removing hydrogen-related funding from these early-stage mechanisms

undermines the ability to develop robust, evidence-based submissions under the uncertainty framework.

We are supportive of Ofgem's proposed 'Programmatic Approach' but are concerned that gas networks may be excluded from challenge setting and delivery if funding allowances do not support active participation. The narrowing of NIA criteria and applicable funding also risks limiting gas networks' ability to contribute to future NESO-led innovation projects, particularly where they fall outside the scope of NIA.

We respectfully urge Ofgem to reconsider its position and reinstate support for hydrogen and blending-related innovation projects. We also encourage Ofgem to work collaboratively with industry and government to ensure innovation funding remains aligned with national hydrogen ambitions and the practical delivery needs of network operators. Maintaining this alignment is essential to building the evidence base, infrastructure readiness, and pace of transition required to meet the UK's net zero and Clean Power 2030 goals.

Question 22. Do you agree that £2.5m of additional NIA should be used to provide enhanced advisory services for innovators at the early stages of innovation development?

Yes, we agree with this proposal in principle. We ask Ofgem that gas networks are involved in any future consultation on the development of the Enhanced Advisory Service, as well as the appointment of the expert delivery body it has referred to in the Draft Determination. For NGN, this could be up to circa £400k of total NIA allowance, so it is vital that both network innovators and customers gain as much value for money from this service as possible.

Whilst we see the benefits for early-stage innovators and further solidification of the innovation ecosystem in this proposal, we would ask Ofgem to reconsider its proposal to narrow the scope of NIA. In the initial phases of innovation development, the primary focus is often on emerging technologies and markets, which are likely to encompass topics addressed by the Future of Gas and specifically hydrogen. If this subject is not relevant, it should be clearly communicated to innovators by Ofgem or the supplier of the enhanced advisory service to prevent misunderstandings and the inefficient use of resources. Furthermore, if none of the innovators' work pertains to gas, consideration should be given as to whether gas networks ought to fund and support such initiatives, particularly when they may lack the expertise to provide relevant guidance.

We would also ask Ofgem to provide further information on how it has calculated the proposed £2.5 million to support this initiative. Has an impact assessment as to whether £2.5 million is the right level of investment required, and in the best interest for customers and what value and benefits framework our Ofgem proposing to ensure the advisory service delivers value for customers.

Ofgem must also ensure that this new approach does not add additional resource requirements and therefore costly bureaucratic burden to innovators and networks alike or introduce a less responsive or inflexible approach to innovation which is an essential benefit of the existing system.

Question 23. Do you agree with our approach to improving oversight and reporting of the NIA?

Yes, we agree in principle to Ofgem's proposal for improved oversight of innovation projects. We consider having a set standard process for assessing eligibility and reporting progress and benefits to be a positive step forward. We also welcome further guidance, and examples, of what good reporting

looks like. We would ask Ofgem to engage with networks as this framework develops to ensure the correct level of resource is applied to avoid any additional bureaucracy or negative impact on project timescales.

The changes proposed will also need to be assessed to understand the resource and cost impact of implementation and we would look to work closely with Ofgem to understand these impacts and ensure the funding arrangements for NIA are accounted for.

We also welcome Ofgem's upcoming consultation on the updated NIA Governance Document.

Question 24. Do you agree with our proposals to allocate £500m for SIF funding?

Yes, we agree with Ofgem's proposal to allocate £500 million for SIF funding. We are also encouraged by the inclusion of £50 million of funding for rapid deployment of proven innovation. We agree with Ofgem's proposal to increase the SIF funding within RIIO-3 to respond to system needs, when considering the yet to be defined requirements and associated costs/funding of the 'Programmatic Approach'.

We would like to see a more balanced approach to the SIF theme setting with strong engagement from the gas sector to ensure the needs of our industry and customers are properly reflected.

Question 25. Do you agree with our proposals to introduce a 'Programmatic Approach' to the SIF?

Yes, we support Ofgem's 'Programmatic Approach' in principle. We are encouraged by the medium and longer-term focus on problem statements to address GB's energy transition ambitions. This change will provide additional time for planning projects and building consortiums, which should enhance the collaborative nature for the planning and effective delivery and measurement of SIF projects.

While we agree in principle with the 'Programmatic Approach', we seek clarification on the expected level of involvement from networks. How relevant will the challenges be to networks, and what level of risk will consortium members assume if projects fail to meet the expectations of both the Taskforce and Ofgem's standards? How will Ofgem ensure that networks [or gas industry] research and innovation needs gain an equal footing within the programmatic approach?

Ofgem plans to set targets by mid-2026, with quarterly reviews by a Taskforce and annual reviews by Ofgem. This Taskforce will include senior decision-makers from networks, sector experts, and key market stakeholders to drive target achievement. We ask Ofgem to provide further clarity and transparency as to how the Taskforce Chair and members will be appointed, ensuring a balanced representation across both gas and electricity, as well how the Taskforce will be funded.

Question 26. Do you agree with our proposal to introduce a £50m deployment fund, utilising £50m from the total £500m SIF allocation?

Yes, we welcome Ofgem's proposal to introduce a £50 million fund for rapid deployment of proven innovation. However, we would request further clarity and transparency to the recruitment of the delivery partners and expert assessors to ensure this does not create unnecessary bureaucracy and complexities from initial application through to delivery, and measurement of associated benefits.

NGN recognise the value innovative solutions can bring but note the undoubted risk inherent in moving to adopt new and relatively unproven technologies into the operational environment with the varied challenges such solutions can bring. We therefore welcome this proposal to fund deployment which should target the reduction of risk to simplify the adoption process, underpin industry confidence and support the challenges of scale up and technology support which may be seen as challenging by third party innovators.

Question 27. Do you agree that the deployment fund should also be open to innovation projects that haven't been funded through NIA, NIC or SIF?

Yes, in principle, we do not disagree that that the deployment fund should also be open to innovation projects that haven't been funded through NIA, NIC or SIF, especially for projects which deliver against GB's gas and wider energy ambitions and provides significant consumer benefit. However, we would expect Ofgem to publish clear guidance what it would consider eligible alternative funds, ensuring that the deployment fund remains proportionate and competitive.

We would welcome Ofgem collaborating with third party organisations that currently support innovators to secure funding to develop processes that have been proven to work with the innovator space. Organisations such as the Energy Innovation Centre and Innovation SuperNetwork would be a useful place to start that conversation and perhaps these can be leveraged to facilitate criteria/eligibility assessments prior to engagement with the gas or electricity sectors.

Question 28. Do you agree with our proposal to reverse the SSMD position of removing the Discovery phase from SIF?

Yes, we agree with Ofgem's proposal to reverse its SSMD position to remove the Discovery phase from SIF. The reduction in real terms for the NIA fund means it is essential to maintain the Discovery phase within the SIF. This retention will alleviate financial pressures associated with early-phase feasibility and discovery work. The introduction of new Cycles has successfully addressed many of the bureaucratic issues highlighted in network responses to the SSMC. We would also support the continuation to apply directly through to Alpha and Beta within the Cycles process.

We see the value of the Discovery phase of work, to first test the feasibility of a proposal before more significant investment is committed. The nature of innovation is high risk and therefore it is expected that most projects will fail before commercialisation, discovery therefore supports earlier identification of such projects through early-stage research.

Question 29. Do you agree with our proposals to retain the core aspects of the SIF for RIIO-3?

Yes, we agree with Ofgem's proposal to reverse its SSMD position to remove the Discovery phase from SIF. The reduction in real terms for the NIA fund means it is essential to maintain the Discovery phase within the SIF. This retention will alleviate financial pressures associated with early-phase feasibility and discovery work. The introduction of new Cycles has successfully addressed many of the bureaucratic issues highlighted in network responses to the SSMC. We would also support the continuation to apply directly through to Alpha and Beta within the Cycles process.

Ofgem plans to set targets by mid-2026, with quarterly reviews by a Taskforce and annual reviews by Ofgem. This Taskforce will include senior decision-makers from networks, sector experts, and key market stakeholders to drive target achievement. We ask Ofgem to provide further clarity and

transparency as to how the Taskforce Chair and members will be appointed, ensuring a balanced representation across both electricity and gas, as well how the Taskforce will be funded.

Question 30. Do you agree with our proposals for a more flexible approach to contribution rates to fund SIF projects?

Yes, we are supportive of a more flexible approach to contribution rates for SIF projects, particularly when balancing the portfolio of high-risk and low-risk projects. However, we would ask Ofgem to provide further detail of how it intends to assess and set contribution rates for projects, who will be the key partner in reviewing project proposals and how it will engage with industry to ensure all parties are aware and informed of the process. We are acutely aware that networks are driven to operate efficiently and as such do not have the same level of capital set aside for large scale innovation investments. Any large contribution through Networks carries a high degree of risk if the third-party supplier retains the Intellectual Property Rights.

It should be noted NGN our core business is not that of a dedicated R&D institution or technology vendor. We therefore do not benefit from the higher levels of return on investment normal in such businesses. As such we would anticipate the required contribution rates reflect that position with lower requirements than wider industry to reflect the regulatory framework we operate within.

Question 31. Do you agree with updating the SIF eligibility criteria and assessment process?

We are supportive of Ofgem reviewing the current eligibility criteria and assessment process of SIF. However, we would expect Ofgem to consult networks, innovators and innovator support organisations on its proposed criteria as the Draft Determination does not provide specific details.

Question 32. Do you agree with our proposal to establish a direct pathway for transformative projects to seek Ofgem's support for funding?

We are broadly supportive of the approach to bring together networks and innovators, especially regarding the proposed ‘Programmatic Approach’ and ‘Enhanced Advisory Service’. If implemented correctly, this flexible approach will have positive benefits to achieving GB’s energy ambitions and bring customer benefit. However, we would expect further clarification on the detail and clarity as to how Ofgem intend to implement future transformative proposals.

We understand the need for a route for networks and innovators to discuss project partnerships and collaboration, but a potential bypass system could risk straining the SIF fund and UKRI's resources.

The role of the ‘Enhanced Advisory Service’ and the expectations placed on networks need further clarification. Additionally, there is a risk that this could increase project bureaucracy and workload for all partners. Therefore, more guidance and clarity are required from Ofgem to ensure the proposals are effective and practical.

We would welcome an approach that delivers rapid pace from proposal through to funding to avoid prolonged bureaucracy and delay which adds cost and complexity to the process and stymies the accelerated ace of innovation needed in the UK.

Question 33. Do you agree on the need to clarify roles and responsibilities within the innovation ecosystem, and the factors that we should consider?

Yes, we would support this approach in principle but would want representative and proportionate input in setting the new framework going forward. We would ask Ofgem to provide further clarity around what it considers as its Innovation Ecosystem, and what key factors it will consider as part of this to support the 'Programmatic Approach'. One area of focus for us will be the approach to appointing compulsory key stakeholders on to project delivery partnerships, and ensuring they are adequately resourced to prevent delays in project delivery or commissioning of projects. Noting that such stakeholders may become stretched or overcommitted if all networks are utilising the same small pool of people.

Question 34. Do you agree with our approach to improving reporting of deployed SIF projects and lessons learned post-funding?

Yes, we see this proposal as a positive step forward, particularly in demonstrating learning across the Innovation Ecosystem, enabling service improvement or delivering value to customers. Consistency and inclusion in developing measurement tools will be critical for network acceptance. Consideration should be given to the resource required to fulfil any improvements to the reporting process, as well as ensure this does not restrain innovation ideas/projects going forward.

Therefore, for this to be successful in achieving clear articulation of learning and benefits, Ofgem need to ensure the development and introduction of consistent project documentation and benefit reporting tools available to all networks and stakeholders. We are asking Ofgem to consult networks on any future proposals, so they are agreed upon with all networks prior to the RIIO-GD3 period commencing.

We would welcome any measures that remove ineffectual or surplus information that currently are required as part of an initial bid. Ofgem small innovators struggle to develop such a broad range or documentation and find the cost overhead too burdensome.

Cyber Question

Question 35. Do you agree with our proposals for the Cyber Resilience re-opener?

Yes, we welcome the cyber resilience re-opener for the RIIO-3 period. Given the rapidly changing nature of the security sector, the evolving threat landscape, and the volatile geopolitical environment we are currently operating in – this mechanism gives our teams the opportunity to frequently reassess and, where necessary, accelerate key security improvement projects. This focuses our security team on addressing areas of greater risk exposure and driving valuable change within the business.

Data & Digitalisation Questions

Question 36. Do you agree with our position of not changing the Digitalisation licence condition?

Yes, we are in full agreement with this position. The licence condition has been an effective way of advancing the digitalisation of the energy sector and will still be required in RIIO-GD3 and beyond.

Question 37. Do you agree with our proposed approach to the DSI licence condition?

Yes, we are in broad agreement with the proposed approach. We recognise the importance of the DSI in the further growth in secure sharing of industry data and agree that a licence condition would be an effective way of encouraging network companies continued support in its development and use.

However, it should be noted that discussions around the technical requirements for the DPN have only just commenced with NESO. We do not anticipate any issues in this area but would expect to fully sign-off on the design prior to any licence condition being applied. Likewise with the Trust Framework. The licence condition requires compliance with a trust framework, but we would expect full consultation and sign-off on the granular detail of this framework prior to the condition being agreed.

We note Ofgem's recognition that the DSI will not be operational at the start of RIIO-GD3 and fully support their consideration of how to approach this.

Question 38. Do you agree with our proposed design of the Digitalisation re-opener?

We are in broad agreement with the proposed design. The proposed date for the re-opener window corresponds well with the current timelines for DSI and should also allow network companies time to assess changing requirements/ technologies that may materialise in the final years of the price control, particularly around fast-moving, nascent technologies like AI.

We note the materiality threshold proposed in the SSMD and welcome this approach.