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**National Gas Transmission (NGT) Independent User Group [IUG]: Response to Consultation on frameworks for future systems and network regulation: enabling an energy system for the future**

I write to you as the Chair of the NGT Independent User Group (IUG), which as Ofgem will know, provides independent challenge and scrutiny to NGT on the business's performance and the quality of its engagement with the stakeholder groups that use the gas transmission network, now and in the future. The IUG was initially set up as part of the RIIO-2 business plan development process and it continues to perform this stakeholder contribution and oversight role during the current transmission price control period.

The IUG wishes to set out its reflections on the latest Ofgem consultation on Future Network Regulation, with our focus as always, on the implications for stakeholders and consumers.

**IUG initial reflections on Ofgem's Consultation on Frameworks for Future Systems and Network Regulation**

- We note the interactions in this consultation with the “**local energy institutions and governance**” consultation but have not addressed any detail on related points nor on the consumer interest framework, unless mentioned in the context of this consultation.
- We welcome the much-needed focus on acceleration towards an affordable, secure, **clean energy future and the role of regulation** in making this outcome happen and in not acting as a barrier. However, the IUG believes that in developing the future regulation Ofgem should clearly state its vision and values and the outcomes to be achieved which should be both far reaching and holistic.
- We note the intention to focus on **future consumers as well as existing consumers**, but we are concerned by the absence of detail in how the methodology will address affordability/fairness and intergenerational equity in the short to medium term – this should be a key question in Ofgem's ongoing engagement on the future regulatory framework; whilst recognising that policy direction is required to determine to what extent the consumer will fund all the costs for the transition to net zero, rather than the taxpayer.
- Ofgem will need to be clear about the consumer benefits in meeting **long-range net zero targets** and communicate this to existing consumers in view of recent calls for Ofgem to be given a net zero mandate<sup>1</sup>.

**Vision, Principles and Outcomes**

Based on consumer and wider stakeholder engagement, we would encourage focus, not only on securing energy but on wider **resilience**. In practice this would mean any approach the regulator adopts should support not just a reliable energy supply for customers and end consumers but enables

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<sup>1</sup> Energy Live News.(2023): [Decarbonisation of UK power sector in danger: targets for 2035 at risk - Energy Live News](#)

a focus on wider aspects such as **workforce, investment, reliability, supply chain and community resilience**.

**The outcome of the framework must support a thriving environment** which requires a much broader focus not only on achieving net zero but also on biodiversity and preventing pollution. Solutions that deliver net zero energy system at the cost of the natural environment (as has been demonstrated in the water sector) will not be politically acceptable to many consumers and could be counter-productive to tackling climate change.

A future framework also presents Ofgem an opportunity to shift its focus from being solely about affordability, to supporting **equity and fairness** – that is fair for users of the network and end consumers in terms of the costs that they pay, fair in terms of who pays across the generations and who benefits, and fair for investors in the infrastructure in terms of the returns they receive by providing clarity, and certainty whilst supporting a thriving economy.. .

Indeed, DESNZ's draft Strategy and Policy Statement for GB energy policy<sup>2</sup> puts more emphasis on resilience, recognising that *"Strategic network plans take a whole system approach, including early consideration of the deliverability, economic cost, and environmental and social impacts."* These outcomes should be central to Ofgem's approach and build on its consumer interests framework including a focus on **service quality and standards**. In gas there is a greater need for a focus on maintaining safety as we decarbonise heat, whilst continuing to maintain reliability of the existing network. **At present this consumer focussed vision is absent.**

Similarly, it is important that Ofgem is clear about the **principles or values** that will drive its decision-making, we would suggest the introduction of guiding principles which could include:

- (a) **'Best value'** for consumers and wider society – not just 'lowest cost' of the energy network which risks costing citizens and customers significantly more and missing opportunities to deliver whole system (not just energy system) value short and longer-term benefits. A focus on broader environmental and social goals ensures opportunities are not missed. Recent price controls have benefited from a falling cost of capital which has allowed for significant increases in investment while still delivering falling network costs on customer bills. As borrowing costs increase, investment becomes more expensive which in turn increases the tension between keeping bills as low as possible and the need for investment. While the transmission element of the bill is relatively small, affordability is still an important consideration. Focus should not simply be on the lowest cost business plans, but best value plans, taking into consideration wider social, environmental, and economic impacts and intergenerational considerations.
- (b) Developing the **public's trust and confidence** in the energy sector and the regulator throughout the period of energy transition towards net zero, whilst maintaining security of supply and keeping costs affordable for the consumer. If this is a guiding principle it may for example lead to a stronger focus on consumer and wider stakeholder engagement in the process; we encourage Ofgem to consider public perceptions of any approach and the over-arching narrative. **Clear Social Accountability:** Ofgem should clarify different networks' roles on social issues - there is a lack of clarity on the roles and responsibilities of different actors in the energy system on social issues including energy efficiency, affordability and supporting consumers in vulnerable situations.
- (c) **Deliverability** – ensure that there are the necessary resources, taking a realistic view of the capabilities and cultures of Ofgem, the FSO, companies, and government policy decisions.
- (d) **Flexibility or adaptability** given the high degree of uncertainty in the short-medium term. The nature of the challenge ahead has changed, and we must consider all options to get us to net zero and this means giving consumers greater choices. We welcome the strong focus on whole system planning and co-ordination of network investment and generation (with intention

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<sup>2</sup> [Strategy and Policy Statement for Energy Policy in Great Britain: consultation \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/consultations/strategy-and-policy-statement-for-energy-policy-in-great-britain)

to be adaptive) to deliver anticipatory<sup>3</sup> investment in a strategically planned system – This should provide greater value for consumers and for industry, stakeholders, including communities and regions. The final framework will need to highlight, enable, and reward greater whole system, cross-sectoral collaboration, and optimisation to deliver resilient, reliable and safe energy networks that support a thriving economy, communities and environment. This should be reflected in strategic planning, design, and performance incentives. However, Ofgem also needs to be clearer about what it means by “whole system” i.e., what is its role, if it has one, outside the regulated energy vectors?

Failure to consult on these guiding values and principles also risks the regulator being out of step with stakeholder views or misunderstanding perspectives.

**Leveraging Stakeholders & Consumer Voice:** There is a key issue here on the role of stakeholder engagement. Stakeholders will be critical to the strategic planning process, but this would then place the responsibilities for effective stakeholder engagement on the FSO and not the network companies/licensees, and thus also the likelihood of absolving companies of taking ownership of their own stakeholders.

There is a danger of losing stakeholder buy in without clarity on how stakeholder inputs will be used as the licensees will still have to engage with their stakeholders on detailed business planning, priorities, delivery, and its outcomes. There is a major gap here that needs to be worked out and needs to be considered in the work on stakeholder engagement and in the development of the final framework(s). A framework that reflects all stakeholder needs and priorities is essential for achieving consumer value – this is missing **from para 2.40**.

Generally, while we recognise Ofgem has asked a question about the Consumer Voice in regulation (which we will address later), we are surprised at the paucity of references to stakeholders overall in the consultation. Any whole system, future focused and value for money approach will only work if the right stakeholders are identified and if networks and Ofgem enable the clear articulation of their priorities and needs from the outset. And with an understanding of the different stakeholder trade-offs that may need to be made in the interests of securing the strategic outcomes for the energy future.

**Reaching Net Zero and deliverability:** We welcome the recognition of variation in devolved nations net zero targets - we expect to see these taken into account in the final methodology. We believe that more thought is needed on the incorporation of regional variation<sup>4</sup> which will become increasingly important. The IUG would query whether the FSO is able to perform a planning role beyond transmission effectively, given the local knowledge and community engagement that will be needed. Consideration needs to be given as to what can pragmatically be delivered in the time available. We believe that network companies know their stakeholders best. What is the role of regulation, and will the regulatory framework allow for or address this?

**Clarity on Multi-Vector Vision:** The Foreword states that Ofgem plans to consult on an expansion of the current Strategic Network Plan to cover gas and hydrogen as well as electricity. As the IUG, we would fully endorse this approach and would seek further clarity in terms of timescales for this to commence..

**The Need for Common Planning Scenarios / Assumptions:** There was not much detail on how demand will be calculated in the next price control. T2 planning was problematic here – Attempts at a Common Scenario ended with differing network forecasts (including regional variations). While this analysis will no doubt sit with the FSO, much work will be needed to arrive at the point of demand forecasts that will drive the need case for investments. All licensees and their stakeholders (supplier and consumers) will need to appreciate the assumptions used and the likelihood of delivery, where the pace and role of technologies like storage, locally determined demand will have an impact– we also need to know how consumer behaviour will be factored in and how will stakeholder engagement

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<sup>3</sup> For GT, there is less focus on anticipatory planning due to policy uncertainties – issue for discussion, picked up later in this doc.

<sup>4</sup> Referred to re a separate consultation and the need for a common roadmap but nothing substantive in this doc.

be addressed? As Ofgem recognises, this will be significantly challenging for the FSO to deal with in the timescale that is envisaged.

**Achieving Net Zero and a High Standard of Resilience must be clear drivers:** On asset health, stakeholders will expect to see an evolved approach that goes beyond the essential engineering components to fully address asset resilience and adaptation to climate change.

### **Simplifying the Regulatory Framework**

We welcome the focus on reducing regulatory complexity and we need to see more detail on how this would work as the detail of the methodology develops. However, we caution that simplification should not be an end in itself, or indeed a guiding principle if it jeopardizes important consumer and stakeholder outcomes. In practice, it has as much to do with proportionality of Ofgem's approach and linked to that the regulator reflecting on where it can have greater confidence in companies to deliver and could rely on other tools in the regulatory toolbox or move certain decisions outside of the regulatory framework. For example, there could be a role for independent challenge groups in assessing performance in areas such as workforce resilience, vulnerability, public purpose; or more of a negotiated settlement approach in some areas with appropriate regulatory oversight if needed.

The "Archetype" and "building blocks" approach is positive creating a simple process where it can, utilising existing RIIO mechanisms (maintaining certainty and stability) with the ability to incorporate progressive system coordination in a targeted approach – all of which should bring value for consumers and stakeholders.

In terms of the three archetypes and, in response to para 3.4 we believe that question 1 also needs to add "**What needs to be done (the how) and why.**" This is because, as we move towards a more whole energy system form of regulation, the range of investment options will become wider. We also believe that question 2 needs to emphasise the importance of **effective delivery over and above efficient costs only** – to reflect the enhanced focus in the FSNR on energy future outcomes.

- **Archetype 1 (Plan and Deliver)** – Also, this model relies on "a series of national and regional strategic plans which are turned into detailed description of network needs." How do you identify and agree what's essential by when and "deliverability"?
- **Archetype 2 (evolution of incentive regulation)** – We welcome simplification where possible and proportionate and provided no unintended consequences for achieving strategic outcomes. In addition to effective financial incentives, Ofgem should consider how it can strengthen the effectiveness of reputational incentives.

T2 planning was hampered by differing, and changing, assumptions on the information needed to calculate efficient costs and measure asset health **There is a need for a clear set of common, agreed assumptions.** This was a clear issue in the T2 determination process and changes between the DD and FD impacted licensees' business plans in terms of "hitting the ground running" at the beginning of T2 and a repeat of this is not conducive to the pace we now need. For example, Ofgem have also said that system planning will reduce information asymmetry, but it is unclear how it will within the cost assessments, so an agreed way forward with licensees is essential.

- **Archetype 3 (ex post monitoring regime)** – This archetype seems a backward step from the stakeholder-led process in T2. We believe it is important to stick with periodic reviews as a principle in the interests of providing certainty for stakeholders but only in the context of an agreed longer-term pathway.
- **Managing Uncertainty:** There is a need for more flexible and adaptive planning to support "low regret decisions". A whole new, streamlined process is needed for uncertainty

mechanisms and reopeners and adequate space/resource for effective in-period reviews will be needed.

- **On Competition:** This should not be an end in itself but rather a means to deliver outcomes such as reliability of supply in a best value manner. Ofgem should consider carefully where it is applied and be clear about the value it is delivering. With each decision or option proposed Ofgem should be asking – does this option support or undermine the intended consumer outcomes or principles?
- To deliver an energy system fit for the future and to deal with uncertainty there is a need for **new analytical tools and approaches** – from social return on investment models to more adaptive planning. Standard cost benefit tools are not very good at analysing against uncertainty or best value.
- **The use of Consumer Interest Framework:** We very much welcome proposals for arriving at next steps via impact assessment based on Ofgem's consumer interest framework. We suggest that the consumer interest framework needs to be clearer on the assessment of existing vs future consumer interests.
- **Innovation is key to delivering a clean energy system by 2035** - Ofgem's approach to innovation incentives is recognised by some stakeholders as best practice and as a global first, where an entire sector is incentivised to innovate where the outcomes of that activity can then be measured. However, innovation is a journey and the different price controls enable the regulator to iterate and further develop the approach. The next price control framework needs to continue to build upon the strong foundations created by the NIA which has continued to create an environment of collaboration and incentivise innovation. For innovation to flourish at such a crucial time in our energy sector's history, there is a need to maintain continuity, consistency, and increase flexibility. Improvements are needed to resolve known challenges and barriers to the deployment of innovation already identified by stakeholders and network businesses. A focus on acceleration in the deployment of innovation should be a primary driver for the review of regulation by ensuring that innovation funded by customer money is progressed at speed, embedded into business as usual and providing best value to energy customers.

### **Gas Transmission Specific**

- We expect the methodology, and its further development, to take continued account of the policy background on hydrogen, while acknowledging and supporting the policy uncertainties and the need to maintain value for money for consumers within that scenario, the IUG has also seen evidence of stakeholder desire for NGT to prepare for a net zero future and the role of hydrogen, whatever type that may be.
- We note that the regulation of hydrogen networks sits outside the scope of this review. However, within the FSNR framework, we want to see Ofgem setting a roadmap on how it can maintain the necessary capacity and reliability in the existing network whilst best preparing for a hydrogen future as clearer policy direction evolves, and accelerates.
- On a possible 2-year rollover of current price control – from a stakeholder perspective, this is inconsistent in principle with a **whole energy system approach** but then again makes sense to wait for more policy certainty on hydrogen.. Nevertheless, investment planning to maintain the existing network would not follow short term cycles, so the roadmap for future requirements needs to be developed at an early stage. Government policy could catch up quickly here and overtake Ofgem's timetable – a plan needs to be prepared for the smooth transition to a whole system FSO at pace.

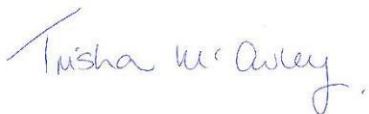
### **The “Consumer Voice”**

- Consumer engagement was a keystone for RIIO-2 which is largely accepted as having worked well with IUGs and a Customer Engagement Group involvement having led to much

improved business plans. While we hope this is unintended, consumers have felt like an after-thought in the approach at a time when the need for public acceptance and support for the transition to net zero given the cost and disruption that will result, is more important than ever. It is not an exaggeration to say that the transition to a best value net zero energy system will succeed or fail depending on public support.

- There needs to be a wider commitment by Ofgem to stakeholder engagement, with the consumer voice strengthened and Ofgem outlining how it will visibly listen to stakeholder and consumer views.
- We are happy with the refinement of the “negotiated settlement” approach from the previous standalone model (presumably as done in other sectors like airport regulation) and the move to seeing it as a generic information gathering and governance feature across the various building blocks of the price control.
- The RIIO-2 model of “enhanced engagement” in transmission, comprising stakeholders representing all user constituencies meant that User Groups encompass a considerable breadth of expertise that can help to address the information asymmetry when properly resourced. They also provide an expert forum to address the tensions between the different user constituencies and the trade-offs that are then made.
- Transparent, effective evidence-based integration of the stakeholder/consumer perspective in line with recognised and agreed good practice principles and clear demonstration in business plans of the rationale(s) is invaluable and Ofgem should emphasise the absolute importance of the consumer view and set out very clearly the role of transmission in the energy future.
- Stakeholder engagement in transmission is critical to ensure value for downstream consumers now and in the future.
- Given the move towards system planning, much more thought needs to be given to how stakeholder engagement will have a strong enough weight in Ofgem’s decision-making. We’d welcome a greater focus on future consumers and users as well as existing consumers within period in terms of short-medium term affordability/fairness and intergenerational equity –a key question in Ofgem’s ongoing engagement on the framework(s). Ofgem will need to be clearer to existing consumers about the consumer benefits in meeting long-range net zero targets.

Yours Sincerely

A handwritten signature in blue ink that reads "Trisha McAuley". The signature is written in a cursive, flowing style.

Trisha McAuley

Chair

National Gas Transmission Independent User Group