**RIIO-3 Sector Specific Methodology Consultation**

Response from Northern Gas Networks Independent Stakeholder Group

4 March 2024

Dear Ofgem,

I am writing in my capacity as Chair of NGN’s Independent Stakeholder Group, which Ofgem has mandated for RIIO-3 and whose overarching role is to ensure stakeholders’ and customers’ views are reflected in NGN’s business plan, and are delivered on through the next price control period, by providing effective challenge and scrutiny. We believe we have a unique role in influencing NGN’s work to ensure it meets the needs of stakeholders and customers in their geographic area.

We believe that Ofgem’s approach builds well on RIIO-2 frameworks, and support the trust of the proposed methodology. Wherever possible we agree to the more limited use of incentive mechanisms with a shift to BAU for service standards that have become the norm and are embedded. This would allow the companies to focus on areas requiring improvement. Retaining the option of bespoke and some reputational incentives will allow the companies to differentiate themselves where regional demand and good practice can be demonstrated.

We have reviewed NGN’s draft response to Ofgem’s SSMC and wish to offer just a few comments that we believe will help ensure good outcomes for customers.

1 We encouraged NGN to include evidence of where it had engaged with **customers and stakeholders** on the key issues impacting them, and to demonstrate how the company’s position could lead to better outcomes. Examples were included in the draft and we expect these will be further enhanced in the final submission. We would expect the Business Plan Guidance to include incentives for good quality stakeholder engagement that has influenced the business plans. This should not rest on a Willingness to Pay survey (the value of which in Ofgem’s decision making process is not obvious).

2 **Affordability** remains the top consideration for NGN’s customers, as the cost of living and high energy prices continue to stretch household bills. Ensuring that network companies offer the best possible value for money should be foremost in Ofgem’s considerations, whilst recognising the need to ensure investment for future network requirements.

3 Whilst the ‘Leading the Way’ **FES scenario** may steer companies towards Net Zero planning, the reality is that without a major shift in government policy, the more likely scenario for RIIO-3 – at least in NGN’s network area- would be ‘Falling Behind’. Without a 20x increase in heat pump installations by 2028, NGN will need to ensure it can continue to serve the vast majority of households it currently serves. The use any of the FES scenarios for planning pathways doesn’t easily fit the realistic position of the gas distribution networks and routes for decarbonisation across its planning horizon out to 2050. Pathway guidance that includes a pragmatic rationalisation of government energy policy (2022 white paper, 2023 Powering up Great Britain and the 10 point plan), advice from the Climate Change Committee (specifically carbon budget allocation) and the FES should be used. This would allow sector specific progress (such as hydrogen blending) and identification of risks including accelerated depreciation of assets and decommissioning if significant Net Zero progress is made. This will ensure customers, who could be using natural gas in 2050, still have a safe, reliable and affordable network, and UK Net Zero requirements are met. Getting this right in GD3 is critical to progress during this price control and into the future.

Where Ofgem is considering changes in methodology it is imperative to indicate at the earliest opportunity where there are likely to be ‘orderly rundown issues’, such as accelerated depreciation, which would affect the trajectory for costs to customers.

4 This also therefore means a greater use of **uncertainty mechanisms** will be needed than we had hoped for. Where customer benefits are in doubt, Ofgem should use these mechanisms. Generally, avoiding uncertainty mechanisms and being clear about ex ante costs would demonstrate greater transparency to customers and enable them to respond in a more informed way to any acceptability testing (eg question on hydrogen blending costs), but we agree with the need to retain reopeners around government heat policy, and we would be looking for more certainty around hydrogen production costs and the impact on bills as part of ongoing trials/research.

5 **Safety** is also critically important to customers, who have come to expect a reliable and resilient network, with extra support for those who need it during any emergency or planned works. The subject of physical security of assets is an increasingly important and valid one, and one which aligns with the above point about where there is uncertainty, a re-opener should remain an option. Resilience is also a function of asset availability, accessibility, which points back to the importance of security in ensuring this.

6 We believe there are strong benefits to continue the UIOLI approach to the VCMA. This is supported by the delivery partners and would result in more smaller scale community initiatives able to reach targeted support to marginalised groups of **customers in vulnerable situations.** Where Ofgem is considering the removal of an incentive, it must do so in an evidenced way by engaging with those who may be impacted more widely than the company. We would also encourage the company to provide evidence to support its position.

7 Incentives that encourage cross sector and **utility collaboration** rather the competition should play a greater role in RIIO-3. We welcome the increase in collaboration with Northern Powergrid across their shared geographic area and wish to see this further develop in RIIO-3 when there is an opportunity for the RESP to support coordinated action. It would seem perverse, to reduce the amount of funding available via the **VCMA** when there is clearly high need and demand for additional support. Higher levels of expenditure, where this is well reasoned and results in demonstrable customer benefits, should be allowed. Additionally, we would expect that all of the additional funding from the changes to FPNES should go to support customers in vulnerable situations. If GDNs have made demonstrable and significant efforts to spend that funding then any underspend should be able to be carried forward into RIIO-3.

7 ISG agree with the creation of a common set of **environmental** KPIs but they do need to be based on materiality. Methane leakage is the biggest environmental issue for the GDNs and more urgency is needed to identify and reduce leakage during RIIO-3 particularly as the transition to Net Zero has slowed.

I hope these brief comments are useful in your deliberations.

I look forward to continued engagement with Ofgem and the Chairs of the other ISGs to add value to the RIIO-3 processes on behalf of stakeholders and customers.

Yours Faithfully

Jenny Saunders CBE DCL

Chair NGN Independent Stakeholder Group