RIIO-3 Team

Network Price Controls

Ofgem

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6th March 2024

**RIIO3 Sector Specific Methodology Consultation**

I have pleasure in submitting a response to the above consultation on behalf of ESP Utilities Group Ltd (ESP). The Group includes ES Pipelines Ltd, an independent gas transporter (IGT), ESP Electricity Ltd, an independent distribution network owner (IDNO) and ESP Water Ltd, an operator of last mile water networks (NAV). ESP has been operating independent networks for over 20 years and serves over 1 million connections right across Great Britain.

In all areas of our operation, ESP is governed by Relative Price Control (RPC) and will be impacted by decisions made as part of the RIIO-3 process. In the case of our IGT business, we operate within a price “floor and ceiling” which constrains charges, regardless of adjustments in GDN pricing. We would therefore welcome the opportunity to engage with Ofgem on appropriate arrangements for IGTs as we transition to a Net Zero economy.

The consultation recognises that the UK’s legally binding target to reach Net Zero by 2050 will require changes to the way that energy networks are funded over the coming decades. All pathways envisaged by the ESO’s Future Energy Scenarios detail declining gas volumes. The move away from gas usage will inevitably lead to costs being recovered over a shorter time frame, as the usable life of these assets is reduced.

In addition, although not anticipated to occur in significant volumes until the 2030s, there will be costs associated with a declining volume of gas consumers to ensure safe and controlled decommissioning of assets. These costs will fall on all network operators and consideration will need to be given to how these costs are recovered fairly across all consumer groups.

Absent clear policy solutions on recovering these costs from other routes, Ofgem must address the question of how these costs are recovered “fairly” from consumers, now.

If this issue is not tackled now, then future generations of consumers, those least able to take advantage of early adoption of alternative low carbon solutions, will be left with a disproportionate and unmanageable burden.

Alongside the question of intergenerational fairness which Ofgem has identified, we think it important to ensure that *all* consumers bear an equal burden of cost, regardless of whether they are connected via a GDN network or an IGT network. Current arrangements do not allow IGTs to recover costs associated with the transition away from gas and, to ensure fairness across consumer types, any acceleration of cost recovery proposed for GDNs in RIIO3, must also be reflected in IGT arrangements.

We look forward to engaging with Ofgem in this important work.

Please do not hesitate to contact me should you require any clarification on this submission.

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