Final: 30-04-2025

NESO Regulation Team
10 South Colonnade
Canary Wharf
London E14 4PU

Dear Colleagues,

Consultation: Business Plan 3 Draft Determinations – National Energy System Operator

The Institution of Gas Engineers & Managers (IGEM) welcome the opportunity to comment on Ofgem's Draft Determinations for the National Energy System Operator's (NESO) third Business Plan (BP3). IGEM's 3,400+ individual members and 425 company members design, build and operate the gas system that heats homes, generates electricity, powers industry, fuels transport and increasingly, supports the deployment of sustainable gases across Great Britain. We therefore focus our response on questions that materially affect the gas sector.

Question 1 – Alignment with Government Priorities and Stakeholder Needs

IGEM agree that NESO's BP3 broadly reflects the Government's Strategy and Policy Statement for Energy Policy in Great Britain's objectives of clean energy infrastructure, energy security and consumer protection.

It is evident that NESO has made considerable effort to build upon the Electricity System Operator's (ESO) original RIIO-2 ambitions, to encompass gas system understanding and planning capability and engage with a wide range of gas stakeholders.

Questions 2 & 3 – Performance Objectives and Success Measures

IGEM's comments focus on the performance objectives of most relevance to our expertise.

IGEM agree that the BP3 performance objectives are sufficiently ambitious and cover the key outcomes for the energy system and consumers for the 12-month period.

Strategic Whole Energy Plans:

IGEM support NESO's proposal. In terms of whole systems thinking and gas system planning capability, NESO's statutory duty across *both* electricity and gas systems must be matched by the resources, analytical tools and data that can fully integrate the gas networks alongside electricity system planning – at both national and regional levels.

We encourage NESO to further embed whole systems thinking more explicitly across its business plan to ensure that gas solutions are given parity of consideration across planning, market design, stakeholder engagement, performance objectives and KPIs. It will be particularly important for NESO to form a balanced, whole systems way forward using both the Gas Advisory Council and Markets Advisory Council (electricity), whereas previously the steer came from only an electricity perspective.

Accelerating the upskilling of gas expertise and gas planning capability within NESO is essential to delivering plans that are whole systems and fully reflect the gas networks' role in optimising energy system efficiency, flexibility and security, while delivering a net zero energy system at 'least cost' for consumers.

IGEM would like to reiterate the importance of regular engagement with gas sector stakeholders and echo other calls for NESO to provide timely and transparent updates and reporting of progress, to mitigate against any potential unconscious bias and ensure that a robust, whole systems approach to energy system modelling and planning is being delivered.

Secure and Resilient Energy Systems:

IGEM agree with Ofgem that this objective is ambitious and appropriate, and we welcome NESO's intention to improve emergency preparedness across all vectors.

Natural gas currently serves as the foundation of energy system resilience, particularly in periods of peak energy demand and low renewable generation. In the transition to a decarbonised energy system, sustainable gases such as biomethane and hydrogen should assume that role – maintaining the gas network's capacity to meet peak demand, balance competing demands for renewable electricity and deliver long-term energy storage capability.

Clean Power 2030 Implementation:

IGEM agree that NESO will play a pivotal role in securing clean power for Great Britain by 2030.

In delivering that role, we urge NESO to go further in considering how the gas networks can contribute meaningfully to near-term carbon savings and the Clean Power 2030 target:

- Hydrogen blending into existing gas network infrastructure can lay the groundwork for deeper decarbonisation by 2030, utilising certificated supplies akin to the model used for biomethane today.
- Large-scale Carbon Capture and Storage (CCS) projects, such as HyNet North-West, plan to be operational before 2030 and should be fully leveraged.
- Biomethane injection into the existing networks provides an immediate and scalable way to decarbonise gas supplies without infrastructure changes; however, its use in power generation is faced with a UK ETS barrier that needs removing. The EU ETS does not have this barrier which enables biomethane to be used in flexible power generation.
- Gas can provide flexible, low-carbon backup power using blended biomethane, blended hydrogen, 100% hydrogen-to-power technologies and natural gas with CCS.
- Hybrid heating systems can also be deployed rapidly, reducing electricity demand peaks (easing the electricity generation capacity challenge and overcoming DNO reinforcement constraints), while offering an aggregate flexible demand asset in the heating season to avoid curtailment and allow low-carbon gases to support domestic heating.

Through measures such as these, and with appropriate policies in place, the gas networks can not only support but can actively accelerate the UK's transition to a clean power system by 2030.

Question 4 & 5 – Costs & Reporting

IGEM recognise NESO's improved cost breakdown, however we agree with Ofgem that further clarity is needed on the justification for the proposed costs, FTE resource and value for money considerations.

It would also be beneficial for NESO to share how its costs and FTEs map to deliverables for gas, as well as electricity, so there is clarity on how whole systems expertise has been resourced and prioritised.

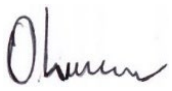
We agree that delivery of the performance objectives alone does not constitute value for money – we encourage the sharing of evidence on what options and alternatives have been considered

in its assessments to ensure NESO is delivering plans that maximise benefits to consumers and support delivery of a flexible and resilient energy system at lowest cost.

IGEM support the need for regular and transparent reporting against progress and maintaining an open and ongoing dialogue with gas sector stakeholders. This will ensure that gas sector insight is captured early in options appraisals, market design and strategic planning.

IGEM would welcome a continued dialogue with Ofgem and NESO to further refine BP3 and to share technical expertise from the gas engineering community. Please contact me if further detail is required.

Yours faithfully,



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