

# Consultation

## RIIO-3 Draft Determinations - SGN

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The next set of price controls for the Electricity Transmission (ET), Gas Distribution (GD) and Gas Transmission (GT) sectors will cover the five-year period from 1 April 2026 to 31 March 2031 (RIIO-3). In December 2024 the network companies in these sectors submitted their RIIO-3 Business Plans for this period to us. We have now assessed these plans.

This document, and others published alongside it, set out our Draft Determinations for the RIIO-3 price controls. These are for consultation and we would like views from people with an interest in RIIO-3 by 26 August 2025. We particularly welcome responses from consumer groups and energy industry network users. We also welcome responses from other stakeholders and the public.

Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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## Contents

<b>RIIO-3 Draft Determinations – SGN.....</b>	<b>1</b>
<b>1. Introduction .....</b>	<b>5</b>
Purpose of this document.....	5
What are we consulting on .....	5
Navigating the RIIO-3 Draft Determinations documents .....	5
An Overview of SGN’s RIIO-GD3 Price Control .....	6
<b>2. Outputs and incentives.....</b>	<b>11</b>
Full Site and System Rebuilds PCD .....	11
South London Mains PCD .....	13
Network Asset Risk Metric (NARM).....	15
<b>Outputs we propose to reject.....</b>	<b>18</b>
EAP: SGN's Fleet Replacement Programme .....	18
Local Gas Treatment .....	19
<b>3. Business Plan Incentive (BPI).....</b>	<b>20</b>
Stage A.....	21
Stage B.....	21
Stage C.....	24
<b>4. Managing uncertainty.....</b>	<b>29</b>
EAP: Remote Pressure Management Strategy .....	29
EAP: Intelligent Gas Grid (IGG).....	29
Biomethane improved access rollout .....	30
Statutory Independent Undertakings (SIU) decarbonisation (design costs) ..	30
Other Distribution Mains and Services .....	31
River and Coastal Erosion – Asset Intervention Strategy .....	31
South London Medium Pressure Re-opener .....	32
<b>5. Cost of service.....</b>	<b>33</b>
Introduction.....	33
Ex ante allowances .....	33
Pre-modelling, normalisations and adjustments .....	34
Regression .....	35
Non-regression.....	38
Proposed cost exclusions from totex .....	41
Engineering assessment of SGN business plan.....	42
<b>6. Innovation .....</b>	<b>44</b>
Background .....	44
<b>7. Data and Digitalisation .....</b>	<b>47</b>
Introduction.....	47
<b>8. Your response, data and confidentiality .....</b>	<b>49</b>
Consultation stages.....	49

How to respond .....	49
Your response, your data and confidentiality .....	49
General feedback.....	50
How to track the progress of the consultation.....	51
<b>Appendix 1 – Summary of Engineering Review .....</b>	<b>52</b>
<b>Appendix 2 – Privacy notice on consultations .....</b>	<b>60</b>
Personal data .....	60

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## **1. Introduction**

### **Purpose of this document**

- 1.1 This document sets out our Draft Determination consultation positions for the price control areas that are specific to SGN covering the five-year period from 1 April 2026 to 31 March 2031 (RIIO-GD3). All figures in this document are in 2023/24 prices except where otherwise stated.

### **What are we consulting on**

- 1.2 In Chapter 2 we set out the SGN-specific outputs and incentives that we propose should form part of RIIO-GD3, including Licence Obligations (LOs), Price Control Deliverables (PCDs), Use-It-Or-Lose-It (UIOLI) allowances and Output Delivery Incentives (ODIs).<sup>1</sup>
- 1.3 Chapter 3 describes our assessment of SGN's Business Plan against the RIIO-3 Business Plan Incentive.
- 1.4 Chapter 4 sets out how we propose to manage uncertainty during RIIO-GD3 for areas of uncertainty that are specific to SGN. We do this through uncertainty mechanisms (UMs), specifically volume drivers, re-openers, UIOLIs, pass-through, or indexation mechanisms.
- 1.5 In Chapter 5 we summarise the outcome of our assessment of SGN's costs and engineering justifications for the RIIO-GD3 period.
- 1.6 Chapters 6 and 7 describe our assessment of SGN's innovation and digitalisation strategies respectively.

### **Navigating the RIIO-3 Draft Determinations documents**

- 1.7 The RIIO-3 Draft Determinations are comprised of an Overview Document, a Finance Annex and sector annexes for ET, GD and GT. The sector annexes are underpinned by a RIIO-3 Impact Assessment, company annexes<sup>2</sup> and, where relevant, technical annexes. This document is the SGN Annex. Figure 1 below maps all documents relevant to our suite of RIIO-3 Draft Determinations, including the framework and methodology documents that have preceded it.
- 1.8 Our Draft Determinations have considered all previous feedback from network companies and other stakeholders, including the reports from the Independent Stakeholder Groups (ISGs) that were established to challenge each of the

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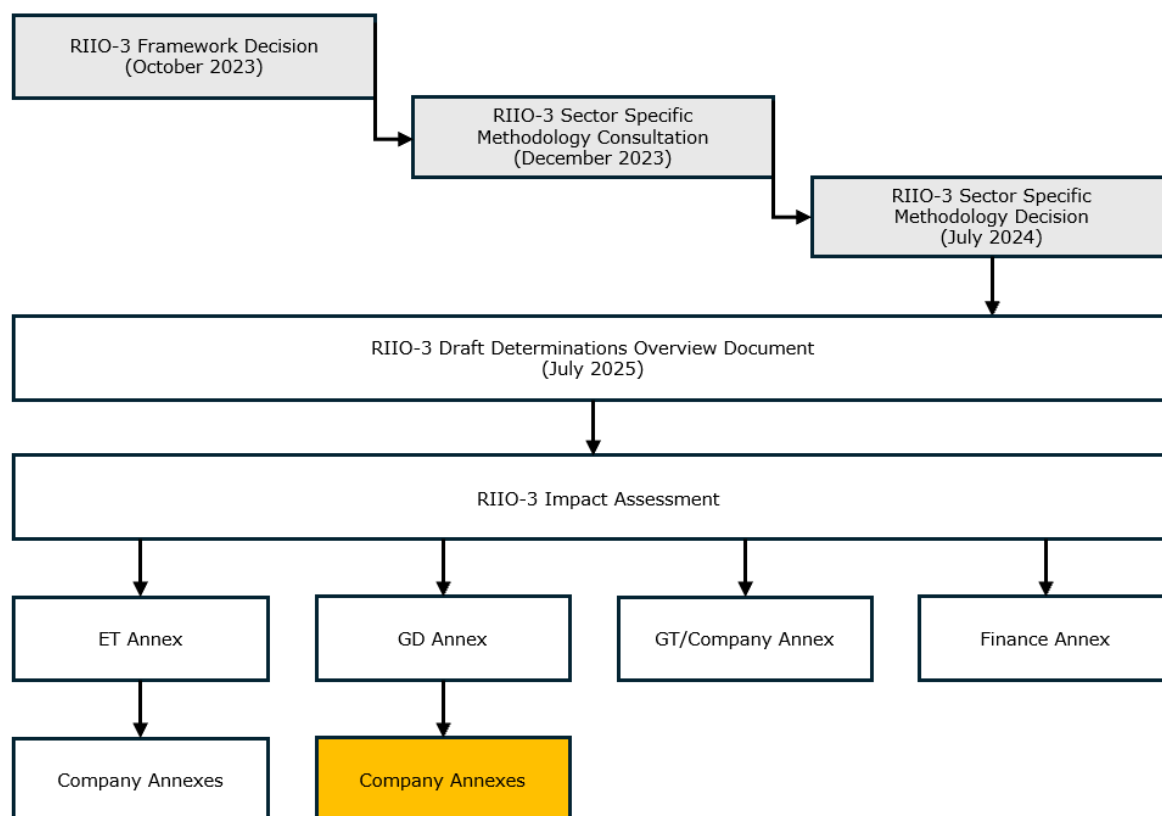
<sup>1</sup> ODIs can be either financial (ODI-F) or reputational (ODI-R).

<sup>2</sup> Throughout this document, 'company annexes' refers to the four GDN specific annexes (their abbreviated names are Cadent Annex, NGN Annex, SGN Annex and WWU Annex).

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network companies on their stakeholder engagement and business plans, and the feedback received in response to our RIIO-3 Call for Evidence.<sup>3</sup> Further details on our approach to embedding the consumer voice is set out in the RIIO-3 Overview Document.

Figure 1: RIIO-3 Draft Determinations map



## An Overview of SGN's RIIO-GD3 Price Control

- 1.9 This section summarises the key aspects of SGN's RIIO-GD3 Draft Determinations, setting out its cost allowances, outputs, UMs, BPI outcome and financing parameters.

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<sup>3</sup> <https://www.ofgem.gov.uk/call-for-input/call-evidence-electricity-transmission-gas-transmission-and-gas-distribution-business-plans-riio-3>

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Table 1: Submitted versus proposed allowed baseline Totex (£m, 2023/24)

<b>Cost area</b>	<b>SGN submitted totex</b>	<b>Ofgem proposed totex</b>	<b>Difference (£m)</b>	<b>Difference (%)</b>
<b>Baseline totex</b>	<b>4,545.6</b>	<b>3,430.0</b>	<b>-1,115.6</b>	<b>-24.5</b>
Network Innovation Allowance (NIA)	30.7	6.2	-24.5	-79.9
Pass-through	1,256.8	1,256.8	0.0	0.0
<b>Ex ante allowances</b>	<b>5,833.1</b>	<b>4,693.0</b>	<b>-1,140.1</b>	<b>-19.5</b>

Table 2: Proposed outputs package

<b>Output name</b>	<b>Output type</b>	<b>Sector(s)</b>	<b>Further detail</b>
Network Asset Risk Metric (NARM)	PCD, ODI-F and ODI-R	ET, GD, GT	Overview Document
Cyber Resilience	PCD and re-opener	ET, GD, GT	Overview Document
Environmental Action Plan and Annual Environmental Report	ODI-R and LO	ET, GD, GT	Overview Document
Strategic Innovation Fund (SIF)	UIOLI	ET, GD, GT	Overview Document
Network Innovation Allowance (NIA)	UIOLI	ET, GD, GT	Overview Document
Totex Incentive Mechanism (TIM)	ODI-F	ET, GD, GT	GD Annex
Operational Transport Emissions Reduction	PCD	ET, GD	Overview Document
Biomethane Connections	UIOLI	GD, GT	GD Annex
7 and 28 Day Repair Standards	ODI-F	GD	GD Annex
Tier 1 Mains Decommissioned	PCD	GD	GD Annex
Tier 1 Services	PCD	GD	GD Annex
Tier 1 Iron Stubs	PCD	GD	GD Annex
Emergency Response Time	LO	GD	GD Annex
Vulnerability and Carbon Monoxide Allowance (VCMA)	UIOLI	GD	GD Annex
Customer Satisfaction	ODI-F	GD	GD Annex
Disconnections Customer Satisfaction	ODI-R	GD	GD Annex

<b>Output name</b>	<b>Output type</b>	<b>Sector(s)</b>	<b>Further detail</b>
PSR Customer Satisfaction	ODI-R	GD	GD Annex
Complaints Metric	ODI-F	GD	GD Annex
PSR Customer Complaints	ODI-R	GD	GD Annex
Unplanned Interruptions	ODI-F	GD	GD Annex
Collaborative Streetworks	ODI-F	GD	GD Annex
Full Site and System Rebuilds	PCD	SGN	This document

Table 3: Proposed UMs package

<b>UM name</b>	<b>UM type</b>	<b>Sector(s)</b>	<b>Further detail</b>
Business Rates (prescribed rates)	Pass-through	ET, GD, GT	Finance Annex
Cost of equity indexation	Indexation	ET, GD, GT	Finance Annex
Inflation Indexation of RAV and Allowed Return	Indexation	ET, GD, GT	Finance Annex
Ofgem licence fee costs	Pass-through	ET, GD, GT	Finance Annex
Pension Scheme Established Deficit	Pass-through	ET, GD, GT	Finance Annex
Tax Review	Re-opener	ET, GD, GT	Finance Annex
Real Price Effects (RPEs)	Indexation	ET, GD, GT	Overview Document
Digitalisation	Re-opener	ET, GD, GT	Overview Document
Resilience	Re-opener	ET, GD, GT	Overview Document
Cyber Resilience	Re-opener	ET, GD, GT	Overview Document
Co-ordinated Adjustment Mechanism (CAM)	Re-opener	ET, GD, GT	Overview Document
Net Zero	Re-opener	ET, GD, GT	Overview Document
Net Zero Pre-construction Works and Small Net Zero Projects (NZASP)	Re-opener	GD, GT	Overview Document
Net Zero And Re-opener Development Fund (NZARD)	UIOLI	GD, GT	Overview Document
Heat Policy	Re-opener	GD	GD Annex
HSE Policy	Re-opener	GD	GD Annex
Tier 2A Mains and Services Replacement	Volume driver	GD	GD Annex
Diversions and Loss of Development Claims	Re-opener	GD	GD Annex

<b>UM name</b>	<b>UM type</b>	<b>Sector(s)</b>	<b>Further detail</b>
Complex Distribution Systems	Re-opener	GD	GD Annex
Safety Disconnections	Volume driver	GD	GD Annex
New Large Load Connections	Re-opener	GD	GD Annex
Specified Streetworks	Re-opener	GD	GD Annex
Central Data Service Provider (CDSP) Costs	Pass-through	GD	GD Annex
Miscellaneous	Pass-through	GD	GD Annex
NTS exit capacity	Pass-through	GD	GD Annex
Pension deficit charge adjustment	Pass-through	GD	GD Annex
Shrinkage	Pass-through	GD	GD Annex
Theft of gas (supplier responsible)	Pass-through	GD	GD Annex
Third-party damage and water ingress	Pass-through	GD	GD Annex
Stranraer	Pass-through	SGN	GD Annex
South London Medium Pressure	Re-opener	SGN	This document

Table 4: Proposed BPI outcome

<b>BPI Stage</b>	<b>SGN outcome (Bps RoRE)</b>	<b>Further detail</b>
Stage A	Pass	Overview Document and this document
Stage B	-7.97 bps	Overview Document, GD Annex and this document
Stage C	-4.43 bps	Overview Document and this document

Table 5: Proposed financing parameters

<b>Area</b>	<b>SGN outcome</b>	<b>Further detail</b>
Notional gearing	GD&T: 60%	Finance Annex
Cost of equity	GD&T: 6.04%	Finance Annex
Cost of debt (semi-nominal)	GD&T: 4.45%	Finance Annex
Weighted average cost of capital (semi-nominal)	GD&T: 5.09%	Finance Annex
Expected RoRE ranges	GD: 4.16% - 7.78%	Finance Annex



## 2. Outputs and incentives

- 2.1 This chapter sets out our views on outputs and incentives that are specific to SGN, including for bespoke proposals submitted through its business plan and Environmental Action Plan (EAP).

### Full Site and System Rebuilds PCD

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**Purpose:** To fund the full site and system rebuilds of 15 specific sites in SGN's network.

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**Benefits:** The PCD holds SGN to account for the delivery of the projects specified, ensuring that these are delivered efficiently.

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### Background

- 2.2 A full system rebuild involves the replacement of critical systems within a pressure reduction station (PRS), such as the filtration, preheat, and pressure control systems, along with associated civils upgrades to accommodate the rebuild. Similarly, a full site rebuild intervenes on all major systems but also includes the replacement of site security fencing to ensure the site meets modern safety and security standards. The majority of full site rebuilds also require land procurement to facilitate relocation due to significant constraints at their current location, such as limited space, accessibility challenges, or environmental factors.
- 2.3 In its business plan, SGN submitted an Engineering Justification Paper (EJP) for 13 sites under the Full Site and System Rebuilds programme. We propose to include two additional projects under this PCD: Glenmavis System Rebuild and Rationalisation, and Isle of Grain PRS - Full System Rebuild & Odorant System Replacement. We are therefore proposing a new bespoke PCD for 15 full site and system rebuild projects across SGN's network.

### Consultation position and rationale

#### Summary of consultation position

**PCD Type:** Evaluative

**Output to be delivered:** Delivery of the full 15 projects detailed in SGN's EJPs for: Full Site and System Rebuilds, Glenmavis System Rebuild and Rationalisation and Isle of Grain PRS - Full System Rebuild and Odorant System Replacement

**Baseline cost allowance:** £47.6m

**Reporting to stakeholders:** Reporting annually through the RRP. Provision of a PCD delivery report on project completion, or at the end of the price control in the event that a project has not been fully delivered.

**Delivery date:** 31 March 2031

**Applied to:** SGN only

#### PCD type

- 2.1 SGNs Full Site and System Rebuilds EJP outlined 11 full site rebuild projects and 2 full system rebuild projects across its Scotland and Southern networks. Our engineering assessment determined that the needs case for carrying out this work was clear and justified based on condition assessments and site issues such as wildlife interference. Given the nature of the work, and the fact that 13 discrete sites were put forward, we propose to fund this work through a PCD.
- 2.2 SGN submitted two further EJPs for projects which could be classified as full system rebuilds - one at Glenmavis Offtake, and one at Isle of Grain PRS. The needs cases for these projects were justified, and they both have a clear scope. Given the similarity of the workloads, and the discrete nature of these projects, we think it is appropriate to fund these projects through the Full Site and System Rebuilds PCD.
- 2.3 We therefore propose to fund SGN's proposed full site and system rebuild costs through an evaluative PCD. An ex post evaluation of the delivery status of the projects will assess whether any adjustment of allowances is necessary to account for under delivery. This will allow us to recover costs for customers in the event that SGN fails to deliver a project.

#### Output to be delivered and baseline cost allowance

- 2.4 We propose to fund £47.6m for SGN to deliver the 15 projects submitted in the following EJPs:
  - Full Site and System Rebuilds;
  - Glenmavis System Rebuild and Rationalisation; and
  - Isle of Grain PRS - Full System Rebuild & Odorant System Replacement.

#### Delivery date

- 2.5 We propose that each of the 15 individual projects must be completed in full by the end of RIIO-GD3.
-

## Questions

- SGNQ1. Do you agree with our proposed design of SGN's Full Site and System Rebuilds PCD?
- SGNQ2. Do you agree with our inclusion of the Glenmavis and Isle of Grain projects in SGN's Full Site and Systems Rebuild PCD?

## South London Mains PCD

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**Purpose:** To hold SGN to account for delivering the replacement of specific sections of the South London Mains project during RIIO-GD3.

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**Benefits:** To protect consumers if any capital investments are not delivered.

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## Background

- 2.6 In SGN's Business Plan, it requested a new bespoke PCD for delivering the replacement of specific sections of iron mains within its South London Medium Pressure network, which supply gas to 1.25m customers. The EJP evidenced deterioration across the asset base, with a high probability of failure. The asset base is currently undergoing at least £1.14m per year of repair costs.
- 2.7 SGN stated that these assets are a high priority for replacement due to proximity to homes and businesses, as well as being relied upon to ensure security of supply to a sixth of their customers.
- 2.8 In SGN's Business Plan, it also proposed a South London Medium Pressure Re-opener, which seemed to forecast the same total allowance for similar work on the same network. The business plan was not clear on how these proposals were distinct.
- 2.9 We propose to accept the South London Mains project as a new bespoke PCD, subject to SGN providing clarity on how this work is separate to its requested South London Medium Pressure Re-opener. We have addressed our decision on this proposed re-opener in paragraphs 4.16 - 4.18.

## Consultation position and rationale

### Summary of consultation position

**PCD type:** Evaluative

**Output to be delivered:** Replacement of the sections of 36-inch (Tier 3) cast iron mains specified in SGN's South London Mains EJP.

**Baseline cost allowance:** £30.02m

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**Reporting to stakeholders:** Independently audited engineering report confirming the completion of each section of the project, as well as annual reporting through the RRs.

**Delivery date:** 31 March 2031

**Applied to:** SGN South London

#### PCD type

- 2.10 We propose to fund this project through an evaluative PCD as it relates to a specific project with defined deliverables, starting from the first year of RIIO-GD3, as set out in SGN's Business Plan. A PCD will enable us to claw back any funds that are not used to deliver the project, protecting consumers in the event of non-delivery or under-delivery of the project. We propose to use an ex-post evaluation to establish whether SGN has met the required output by the end of RIIO-GD3.
- 2.11 We note the lack of clarity in SGN's Business Plan on how this PCD relates to its request for a bespoke South London Medium Pressure Re-opener.
- 2.12 Our consultation position is therefore subject to SGN providing clarity on:
- the difference between the work proposed in the South London Mains PCD and its requested South London Medium Pressure Re-opener; and
  - the certainty of the work included in this PCD.

#### Output to be delivered and baseline cost allowances

- 2.13 Subject to the above, we propose to fund the full £30.02m allowance for SGN to deliver the replacement of the specified sections of cast iron mains outlined in their South London Main EJP.
- 2.14 We consider the project scope is well defined, the needs case for this project is justified, and costs are in line with expectations based on similar projects carried out in RIIO-GD2.

#### Reporting to stakeholders

- 2.15 We propose to require annual reporting in the RRs, which will enable us to monitor the project's status, including timelines and costs. We also propose to require an independently audited engineering report confirming the completion of each section of the project.

#### **Questions**

SGNQ3. Do you agree with our proposed design of SGN's South London Mains PCD?
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## Network Asset Risk Metric (NARM)

2.16 Table 6 and Table 7 summarise the results of our assessment and the proposed Baseline Network Risk Outputs (BNRO) per NARM asset category. Further detail about the NARM methodology can be found in the overview document.

Table 6: Sc proposed BNRO per NARM asset category

Asset Category	BNRO (R£m)
LTS Pipelines (Piggable)	0
LTS Pipelines (Non Piggable)	0
Iron Mains	49.52
Steel Mains	192.78
Other Mains	0.30
Services	43.81
Risers	0
Offtake Filters	0
PRS Filters	56.24
Offtake Slamshut/Regulators	0
PRS Slamshut/Regulators	429.74
Offtake Pre-heating	16.71
PRS Pre-heating	26.16
Odourisation & Metering	0
District Governors	42.12
I&C Governors	0
Service Governors	0.17
<b>Total</b>	<b>857.56</b>

Table 7: So proposed BNRO per NARM asset category

<b>Asset Category</b>	<b>BNRO (R£m)</b>
LTS Pipelines (Piggable)	0
LTS Pipelines (Non Piggable)	0
Iron Mains	185.56
Steel Mains	230.54
Other Mains	19.19
Services	126.93
Risers	0
Offtake Filters	4.27
PRS Filters	28.52
Offtake Slamshut/Regulators	17.45
PRS Slamshut/Regulators	96.81
Offtake Pre-heating	23.60
PRS Pre-heating	79.41
Odourisation & Metering	0
District Governors	144.62
I&C Governors	0
Service Governors	1.20
<b>Total</b>	<b>958.10</b>

- 2.17 Generally, there was good alignment between BNRO and volumes submitted in SGN's NARM Business Plan Data Template (BPDT), the volume data submitted in its business plan and Engineering Justification Papers (EJPs). There was less alignment for some asset categories, which SGN identified in its NARM BPDT commentary.
- 2.18 We acknowledge that our adjustments to the submitted BNRO, based on proposed volume changes, involve a degree of approximation and may not be fully accurate at this time. This is primarily because the data we used to derive our view of the BNRO was at a much more aggregated level than that available to the network companies, and that which will be used to derive the final BNRO. Additionally, there was difficulty aligning the data for some asset categories. However, we consider this acceptable, as the adjustments are based on reasonable assumptions. Reaching a final BNRO may involve several iterations
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of recalculation by the network companies, and we will work with closely with them to achieve this.

- 2.1 We propose to continue to use the NARM funding categories outlined in the NARM Handbook,<sup>4</sup> which sets out the scope of the NARM Funding Adjustment and Penalty Mechanism and its interaction with other mechanisms.
- 2.2 The following Capex projects for SGN are proposed to be assigned as separate PCDs:
- Full Site and System Rebuilds
  - Isle of Grain Full Site Rebuild
  - Glenmavis Full Site Rebuild
- 2.3 Where these projects include replacement or refurbishment of a NARM asset, we propose that the associated risk benefit is allocated to NARM Funding Category A3 (Ring-fenced Project/Activity) and therefore not funded under NARM.
- 2.4 All other Capex NARM Asset proposed replacement and refurbishment workload is proposed to be allocated to Category A1 and would be covered by the NARM Funding Adjustment and Penalty Mechanism.
- 2.5 For Repex, we propose that Tier 1 and associated services are funded and incentivised through the Tier 1 mains and the Tier 1 services PCDs. We propose that Tier 2A mains and associated services are funded by a volume driver. These would be included in Category A2 (Funding Under a Separate Mechanism). We propose that diversions are subject to a re-opener, and reported under A3 (Ring-fenced Project/Activity). These workloads would therefore not be funded under NARM.
- 2.6 All Repex replacement and refurbishment not tied to a PCD or a volume driver is proposed to be allocated to Category A1 and would be covered by the NARM Funding Adjustment and Penalty Mechanism.

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<sup>4</sup> [https://www.ofgem.gov.uk/sites/default/files/2024-07/NARM\\_Handbook\\_v3.1\\_draft.pdf](https://www.ofgem.gov.uk/sites/default/files/2024-07/NARM_Handbook_v3.1_draft.pdf)

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## Outputs we propose to reject

### EAP: SGN's Fleet Replacement Programme

#### Consultation position and rationale

2.8 In its EAP, SGN requested £93.8m of funding through baseline allowances to replace its vehicle fleet every five years on a like-for-like basis. SGN currently uses an eight-year replacement programme for its fleet. However, it stated that changing to a five-year replacement programme will improve its operational reliability, support it in addressing repairs and emergencies, and enable it to quickly adapt to changes in government policy on zero emission vehicle adoption in RIIO-GD3.

2.9 Table 8 shows the additional cost of SGN's RIIO-GD3 proposal compared to continuing the RIIO-GD2 approach to its replacement programme. Both options include £9.8m more funding than in RIIO-GD2 to adopt additional vehicles to accommodate HSE's mandated policy on 12 and 16 hour working.<sup>5</sup>

Table 8: SGN's five-year replacement programme proposal compared to its current eight-year replacement programme

Options	Vehicle costs (£m)	Additional maintenance costs (£m)	Total (£m)
Five-year replacement programme (RIIO-GD3 proposal)	83.99	99.48	183.47
Eight-year replacement programme (RIIO-GD2 approach)	51.29	114.68	165.97

2.10 We propose to reject SGN's proposal. We do not think its proposal is value for money as:

- the reduction in maintenance costs does not offset the higher vehicle costs; and
- the other GDNs currently replace their fleets on a four to seven-year basis at a lower cost than SGN has proposed.

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<sup>5</sup> The HSE Fatigue Standard provides guidance on managing fatigue in the workplace, particularly in roles involving shift work or long hours. It emphasises employers' legal duty to assess and control fatigue-related risks, promote safe working patterns, and ensure employees are fit for duty to reduce the likelihood of accidents and errors. For further information please see: <https://www.hse.gov.uk/humanfactors/topics/fatigue.htm>

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- 2.11 We instead propose to provide £51.29m through baseline allowances for SGN's fleet replacement programme, inclusive of the £9.8m requested for the requirements set out in HSE's policy of 12 and 16 hour fatigue standards in RIIO-GD3. However, we encourage SGN to replace its vehicles on a more frequent basis.
- 2.12 Further details on our RIIO-3 EAP policy design and a high-level cross-sector review can be found in Chapter 4 of the Overview Document, while the GD-specific review can be found in Chapter 3 of the GD Annex.

SGNQ4. Do you agree with our proposal to reject SGN's cost to replace its fleet?
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## **Local Gas Treatment**

### **Consultation position and rationale**

- 2.13 SGN proposed a £15.38m PCD to conduct work on a combined total of fifteen local gas treatment systems on its offtakes within its Southern and Scotland networks. SGN describes these systems, that were installed c.1998, as beginning to show signs of deterioration, with equipment failures becoming an increasingly regular issue that are leading to reactive maintenance visits.
- 2.14 We propose to reject this PCD proposal on engineering grounds, please refer to Appendix 1 of this document for further details.

SGNQ5. Do you agree with our proposal to reject SGN's Local Gas Treatment PCD?
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### 3. Business Plan Incentive (BPI)

- 3.1 This chapter sets out SGN's results for each stage of the BPI, along with the rationale for the result given. For information on what the BPI is and how it is assessed, see the Overview Document.
- 3.2 In assessing business plans against the BPI Stages A and C, we assessed each business plan on its own merit based on criteria set out in the Sector Specific Methodology Decision (SSMD) and Business Plan Guidance. A consistency check was undertaken across companies and sectors to ensure we were being consistent in our assessment; but the business plans were not assessed against one another. For Stage B, depending on the nature of the assessment methodology the companies could be compared against one another within each sector. For further information on Stage B, see Chapter 6 of the GD Annex.
- 3.3 Table 9 sets out our proposed BPI results for SGN and where further information on each stage and the result and rationale can be found.

Table 9: Proposed BPI results for SGN

<b>BPI Stage</b>	<b>Assessment result</b>	<b>Further detail</b>
A	Pass	Overview Document for approach to assessment. This chapter for specific views on the assessment result.
B	-7.97 bps	Overview Document for approach to assessment. Chapter 4 of the GD Annex for the network results compared within the sector and an explanation of the assessment methodology. This chapter for specific views on the assessment result.
C	-4.43 bps	Overview Document for approach to assessment. This chapter for specific views on the assessment result.
Total bps	-12.40 bps	
Total five-year monetary equivalent, £m	-17.5	

## Stage A

- 3.4 Following our assessment, we consider that SGN met all the minimum requirements, as set out in the Business Plan Guidance, and has passed Stage A of the BPI.

## Stage B

- 3.5 The overall assessment result for SGN is -7.96 bps, which corresponds to the weighted average of the outcomes from comparative (-8.06 bps) and bespoke (0.09 bps) assessment. The following sections provide detail on the assessment of each cost category.

### Comparatively assessed costs

- 3.6 The tables below sets out the comparatively assessed costs and their weightings within the overall Stage B assessment score.

Table 10: BPI scoring for comparatively assessed costs by network

Comparatively assessed cost category	Weighting	Efficiency benchmark	Efficiency score	BPI reward/penalty (bps)
Sc - Econometric Modelling	92%	0.90	0.99	-5.14
Sc - Ratio Benchmarking	3%	0.99	1.06	-0.09
So - Econometric Modelling	89%	0.90	1.06	-8.54
So - Ratio Benchmarking	8%	0.99	1.24	-0.79
SGN Total Comparative				-8.06

### Bespoke costs

- 3.7 The table below sets out bespoke costs assessed and the result and rationale for each one assessed.

Table 11: BPI scoring for bespoke cost activities for Sc

Bespoke Cost	Weighting	BPI reward/penalty (bps)	Rationale
ALD capex	0.29%	0.058	Thorough EJP, including robust optioneering, risks and opportunities, spend profile and CBA, and robust

Bespoke Cost	Weighting	BPI reward/ penalty (bps)	Rationale
			rationale for preferred option and spend profile, for total cost, unit cost and volume.
Cyber opex	2.55%	0.000	Cost evidence is broadly aligned with Ofgem guidance. There is some lack of detail and we need to follow up to understand certain costs. Unit cost and volume are not applicable, as most cyber resilience projects are one-off, and the lack of reliable volume means it is difficult to measure efficient unit costs.
Cyber UIOLI	0.05%	0.000	Cost evidence is broadly aligned with Ofgem guidance. There is some lack of detail and we need to follow up to understand certain costs. Unit cost and volume are not applicable, as most cyber resilience projects are one-off, and the lack of reliable volume means it is difficult to measure efficient unit costs.
Cyber capex	0.75%	0.000	Cost evidence is broadly aligned with Ofgem guidance. There is some lack of detail and we need to follow up to understand certain costs. Unit cost and volume are not applicable, as most cyber resilience projects are one-off, and the lack of reliable volume means it is difficult to measure efficient unit costs.
Glenmavis	0.44%	0.088	Needs case well justified and the scope is well defined. Cost breakdown is detailed and robust. Selected option has the highest NPV and is technically the best beneficial. This applies to total cost, unit cost and volume.
PSUP capex	0.23%	0.046	Cost data are provided in BPD, supplemented with supporting evidence in BPD commentary.
Steel Services Operating above 75mb	0.19%	-0.038	A more robust needs case is required for MP steel services and end of network services. More robust evidence is needed for delivery and IP workload, including unit cost and volume.
Total		0.153	

Table 12: BPI scoring for bespoke cost activities for So

<b>Bespoke Cost</b>	<b>Weighting</b>	<b>BPI reward/penalty (bps)</b>	<b>Rationale</b>
ALD capex	0.27%	0.053	Thorough EJP, including robust optioneering, risks and opportunities, spend profile and CBA, and robust rationale for preferred option and spend profile, for total cost, unit cost and volume.
Cyber opex	1.97%	0.000	Cost evidence is broadly aligned with Ofgem guidance. There is some lack of detail and we need to follow up to understand certain costs. Unit cost and volume are not applicable, as most cyber resilience projects are one-off, and the lack of reliable volume means it is difficult to measure efficient unit costs.
Cyber UIOLI	0.04%	0.000	Cost evidence is broadly aligned with Ofgem guidance. There is some lack of detail and we need to follow up to understand certain costs. Unit cost and volume are not applicable, as most cyber resilience projects are one-off, and the lack of reliable volume means it is difficult to measure efficient unit costs.
Cyber capex	0.58%	0.000	Cost evidence is broadly aligned with Ofgem guidance. There is some lack of detail and we need to follow up to understand certain costs. Unit cost and volume are not applicable, as most cyber resilience projects are one-off, and the lack of reliable volume means it is difficult to measure efficient unit costs.
Welling PRS	0.21%	-0.014	Needs case is fair on total cost, and adequate justification on volume. Contingency on overhead costs need to be reduced for unit cost.
PSUP capex	0.17%	0.034	Cost data is provided in BPDT, supplemented with supporting evidence in BPDT commentary.
Steel Services Operating above 75mb	0.01%	-0.003	A more robust needs case is required for MP steel services and end of network services. More robust evidence is needed for delivery and IP workload, including unit cost and volume.

Bespoke Cost	Weighting	BPI reward/penalty (bps)	Rationale
Total		0.071	

### Company results

- 3.8 The company level result for SGN has been calculated the weighted average of its two networks. Total BPI and comparative BPI are reported as the bps of SGN's RoRE over RIIO-3, and not a simple summation of BPI components over the two networks. BPI for each network's bespoke cost are the total of individual projects.

### Stage C

- 3.9 The below sections set out the assessment results and rational for the Clarity and Business Plan Commitments assessments for Stage C of the BPI.

#### Clarity

*Assessment result: -2.8 bps.*

- 3.10 SGN's Business Plan was mostly 'acceptable' but scored 'poor' against 'accessibility and conciseness' and 'coherence and justification'.
- 3.11 The uncertainty mechanism and cost chapters struck a balance between concisely summarising SGN's proposals and providing sufficient detail for the reader to broadly understand what each proposal is doing. The main business plan had an effective use of tables, sub-headings and formatting to logically break down key arguments. The tables summarising costs were well designed, clearly laid out, presented relevant information and allowed for easy comparison between price control periods.
- 3.12 We considered the lack of conciseness of SGN's Business Plan to be 'poor'. The main business plan document spanned 110 pages, including a title page. We note that SGN labelled the document as 101 pages, but this didn't include three contents pages or five section header pages - and still exceeded the 100 page limit set out in Chapter 8 of our Business Plan Guidance. The structure of the main business plan creates repetition, particularly between the outcomes chapters (Chapters 4-7) and Chapter 8 which discusses the regulatory mechanisms. Additionally, the commitments table was duplicated in full, and the same statement regarding 'Regional Energy Strategic Planners' (RESPs) appeared five times. The 47-page vulnerability strategy also lacked focus,
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devoting significant space to RIIO-GD2 rather than clearly setting out SGN's plans for RIIO-GD3.

- 3.13 SGN's Business Plan lacked a clear thread to connect its different parts, and some activities were insufficiently justified. The main business plan incorrectly stated our SSMD decided to retain a volume driver to cover Tier 1 mains and services, when in fact these workloads are covered by PCDs. This misstatement contributed to a confusing and difficult-to-follow narrative. As discussed in Chapters 2 and 4, the alignment between SGN's proposals for the South London Mains PCD and South London Medium Pressure Re-opener was unclear. Similarly, its proposals for Complex Engineering Schemes lacked clarity - Table 8e (page 75 of the business plan) suggested it should be a PCD, while the Other Mains and Services EJP suggested a volume driver. Several proposals within the Cost and Benchmarking annex were either poorly explained or lacked supporting evidence. That said, the NARM Commentary was a positive aspect, showing good alignment between costs and volumes. However, overall, SGN's Business Plan and accompanying documents consistently lacked sufficient coherence and justification for activities, making it hard to follow and hindered our ability to assess its proposals effectively. We therefore rated it 'poor' for this criterion.

### **Business Plan Commitments**

*Overall assessment result: -1.63 bps*

#### Outcome: Infrastructure fit for a low-cost transition to net zero

*Assessment result: 1.95 bps*

- 3.14 SGN's commitments under this outcome category were rated as 'acceptable' for 'deliverability' and 'consumer value and additionality', and 'outstanding' for 'stretching performance' and 'new company proposals'.
- 3.15 Overall, SGN's 'infrastructure for a low-cost transition to net zero' commitments are well constructed. Its whole system approach to setting net zero targets is sensible and thorough, although difficult to measure on deliverability. Its biomethane commitment is ambitious, well-costed and clearly articulated, with strong stakeholder feedback and support driving the ambition.
- 3.16 SGN's green gas commitment for Scottish communities is well constructed and aims to solve a complex problem, providing strong consumer value with a potential solution that could support decarbonisation elsewhere. Its shrinkage, leakage and business carbon footprint commitments are particularly strong - rated as 'outstanding' for stretching performance - and we consider they could make a material difference to reducing emissions. This is despite us consulting
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on rejecting SGN's IGG proposal, as it was only forecast to reduce shrinkage by approximately 1%.

**Outcome: Secure and resilient supplies**

*Assessment result: -2.6 bps*

- 3.17 SGN was rated 'acceptable' for 'stretching performance' and 'new company proposals' under this outcome category, however it was rated 'poor' for 'deliverability' and 'consumer value and additionality'.
- 3.18 The additional proposals and workloads are acceptable, but did not outweigh our concerns around deliverability, particularly of some high value workloads. We do not think that SGN's commitments demonstrated a clear link with delivering what consumers value for RIIO-3, and we consider that in some cases SGN is at risk of under-delivery.
- 3.19 SGN is on track for RIIO-GD2 targets for Tier 2B and 3 repex. However, it is falling short of its mandatory repex workloads in RIIO-GD2 for its Southern network. We do, therefore, have concerns about the deliverability of these workloads in RIIO-GD3. Part of the issue has been difficulty in securing contractors, and it has been mentioned within EJPs that SGN has changed its model for major contractors, which may help for RIIO-GD3. In the risk register for the Tier 1 Mains EJP, the risk of a skills and labour shortage was stated between 60% and 80%. We therefore still have some concerns about the delivery of the mandatory Iron Mains Risk Reduction Programme (IMRRP) in RIIO-GD3.
- 3.20 SGN was transparent about the fact that it has missed its emergency response targets in the past,<sup>6</sup> and it committed to ensuring it complied with its LO in RIIO-GD3, mainly through recruiting more staff. SGN also mentioned the option of adding a further level of triage to emergency calls. However, as recognised by SGN, during a price control period it is likely there is at least one harsh winter resulting in an extreme workload, and concerns about SGN's ability to meet this LO in those circumstances remain.
- 3.21 The Cams Hall project had been proposed and rejected in RIIO-GD2 and was proposed again for RIIO-GD3 at a higher cost. We have disallowed this project on engineering grounds as it was still not well justified, and the needs case was not supported. The costs seemed excessive for the workload proposed. This

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<sup>6</sup> For more details, see Ofgem Press Release, 30 May 2025, [Three gas distribution operators to pay £8 million for missing callout targets](#)

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does not represent good consumer value and additionality. More generally, we consider the justification given for volumes of work insufficient.

Outcome: High quality of service from regulated firms

*Assessment result: -0.98 bps*

- 3.22 SGN was rated 'acceptable' for 'deliverability', 'consumer value and additionality' and 'new company proposals' under this outcome category, however it was rated 'poor' for 'stretching performance'.
- 3.23 Evidence from consumer and stakeholder engagement and research is used to develop SGN's Business Plan, with an understanding of the risks relevant to delivery. However, while we welcome many of SGN's commitments in RIIO-GD3, particularly around consumer vulnerability, customer satisfaction (CSAT) and complaints, we consider its targets in relation to 'high quality of service from regulated firms' are not stretching and are poorly justified.
- 3.24 While SGN has set a target to support 650,000 vulnerable households in RIIO-GD3, it's unclear whether this is materially more ambitious compared to RIIO-GD2. We note that by the time SGN submitted its business plan, it had already supported more than 500,000 vulnerable households in RIIO-GD2 with 18 months to go in the price control period. Indeed, its RIIO-GD2 delivery appears closely aligned with the RIIO-GD3 proposals in Table 3 (page 35) of its vulnerability strategy. While SGN's reach and delivery in RIIO-GD2 is highly commendable - and we acknowledge that reach is only one measure of project impact - there is limited evidence explaining how this new target was developed. That said, we welcome SGN's commitments to train staff, develop 200,000 young carbon monoxide (CO) ambassadors, and deliver accessible and inclusive customer services.
- 3.25 SGN proposed ambitious CSAT commitments, aiming for both its networks to rank in the industry top three by the end of RIIO-GD3. We welcome investment in the Southern network to bring its performance up to that of Scotland and the commitment to an average CSAT score of 9.25/10 or higher for PSR customers, although this remains significantly below the sector leader's PSR commitments. While we commend SGN's commitment to maintain an industry top three position for fewest complaints per 10,000 customers annually, but we note this does not reflect any specific commitment to improving how complaints are handled and resolved in RIIO-GD3.
- 3.26 SGN's proposed Unplanned Interruptions ODI-F Multiple Occupancy Building (MOB) targets are not stretching and are poorly justified. SGN proposed targets
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for its two networks based on the duration of a single incident that occurred on its Scotland network. We do not consider this to be an appropriate target setting methodology as it unreasonably skews the target. We also asked for GDNs to propose a common non-MOB target but SGN provided two different targets for each of its networks. Additionally, SGN's target proposals were significantly behind those of other networks. We considered this to be 'poor'.

### **Questions**

- SGNQ6. Do you agree with our view that SGN passed all of the minimum requirements and as such are considered to have passed Stage A of the BPI?
- SGNQ7. Do you agree with our assessment results for SGN against Stage B of the BPI?
- SGNQ8. Do you agree with our assessment results for SGN against Stage C of the BPI?

## 4. Managing uncertainty

- 4.1 This chapter sets out our views on UM proposals submitted by SGN, including bespoke UM proposals submitted through its business plan and Environmental Action Plan (EAP). We propose to reject them all.

### **EAP: Remote Pressure Management Strategy**

#### **Consultation position and rationale**

- 4.2 SGN proposed £11.22m of Net Zero and Re-opener Development Use-It-or-Lose-It (NZARD UIOLI) funding to extend the installation of remote pressure management electronic actuator systems to 317 district governors in its integrated South London low pressure network and 120 district governors in six networks in its South-East region.
- 4.3 This proposal would not be eligible for NZARD funding due to its materiality, which is over the £2m project maximum, which we have proposed to retain for RIIO-3 in Chapter 7 of the Overview Document (alongside full details on our proposed NZARD UIOLI policy design). However, we instead propose to provide baseline allowance funding for this project due to the level of certainty in delivery and costs.
- 4.4 Further details on our RIIO-3 EAP policy design and a high-level cross-sector review can be found in Chapter 4 of the Overview Document, while the GD-specific review can be found in Chapter 3 of the GD Annex.

SGNQ9. Do you agree that SGN's Remote Pressure Management Strategy proposal should not be eligible for NZARD funding, and instead should be funded through baseline allowances?

### **EAP: Intelligent Gas Grid (IGG)**

#### **Consultation position and rationale**

- 4.5 As part of its EAP, SGN proposed £7.1m NZARD UIOLI funding to roll out the IGG, which seeks to use artificial intelligence to monitor and predict gas network demand on its networks. SGN highlighted that this project would positively impact leakage reduction and enable biomethane injection through proactive pressure management.
- 4.6 This proposal would not be eligible for NZARD funding due to its materiality, which is over the NZARD UIOLI £2m project maximum which we propose to retain for RIIO-3. We also do not consider SGN's proposal is justified on

engineering grounds. Further details of our engineering assessment can be found in Appendix 1 of this document.

SGNQ10. Do you agree that SGN's Intelligent Gas Grid proposal should not be eligible for NZARD funding?

## **Biomethane improved access rollout**

### **Consultation position and rationale**

- 4.7 SGN proposed £7.3m of NZARD UIOLI funding to deliver propane management solutions at new and existing biomethane connections across both its networks. SGN estimates that the eight projects identified will deliver 1,164tCO<sub>2</sub>e/yr in reduced emissions.
- 4.8 This proposal would not be eligible for NZARD funding due to its materiality, which is over the £2m project maximum, which we propose to retain for RIIO-3, however we propose to provide baseline funding for this project due to the level of certainty in costs.

SGNQ11. Do you agree that SGN's Biomethane improved access rollout proposal should not be eligible for NZARD funding, and instead should be funded through baseline allowances?

## **Statutory Independent Undertakings (SIU) decarbonisation (design costs)**

### **Consultation position and rationale**

- 4.9 SGN proposed £5m of NZARD UIOLI funding to progress concept and design work for decarbonising its Oban and Campbeltown SIUs in RIIO-GD3.<sup>7</sup> Under SGN's proposal, compressed biomethane would be transported via tanker from local sources of production (replacing liquefied natural gas transported from the Isle of Grain).
- 4.10 We do not consider this project is suitable for NZARD funding due to it exceeding the proposed UIOLI project maximum of £2m. Instead, we consider this investment, in its current form, could be submitted via the NZASP Re-opener. Full details on our proposed policy design for the NZASP Re-opener can be found in Chapter 7 of the Overview Document.

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<sup>7</sup> SGN owns and operates five independent gas networks in remote parts of Scotland, which are referred to as SIUs.

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- 4.11 We do not currently consider that the project costs have been sufficiently justified to provide baseline allowances, as SGN did not provide a cost breakdown, and it is unclear why the submitted costs are substantially higher than that of a similar project phase of concept and design work for Wick and Thurso, which cost £350,000. However, if SGN provides justification for these costs in response to this consultation, we will consider whether providing baseline allowances is appropriate.

SGNQ12. Do you agree that, in its current form, SGN's SIU decarbonisation (design costs) proposal should not be eligible for NZARD funding?

## **Other Distribution Mains and Services**

### **Consultation position and rationale**

- 4.12 SGN proposed a £7.4m re-opener to replace Tier 3 iron mains that are further than 30 metres from a building, which are identified for replacement from condition monitoring using Advanced Leakage Detection (ALD).
- 4.13 We do not propose to introduce this re-opener as we consider ALD should be used to prioritise existing workloads, rather than increase current workloads. Therefore, we consider any Tier 3 work identified for replacement using ALD condition monitoring should be funded as non-mandatory repex through NARM.

SGNQ13. Do you agree with our proposal to reject SGN's submitted Other Distribution Mains and Services Re-opener?

## **River and Coastal Erosion - Asset Intervention Strategy**

### **Consultation position and rationale**

- 4.14 SGN proposed a £12.47m re-opener for a programme of proactive and reactive asset protection projects to negate the impact of increased river flows and ensure pipe integrity and security of supply. Risks to these pipe river crossings include risks to the pipes in the river itself, pipes buried under the river, or pipes in a structure where known river conditions are a demonstrable risk to the future integrity of the pipe.
- 4.15 We do not propose to introduce this bespoke re-opener as we consider that it can be funded via the existing, common Diversions and Loss of Development Claims Re-opener. Further details on the Diversions and Loss of Development Claims Re-opener can be found in Chapter 4 of the GD Annex.

SGNQ14. Do you agree with our proposal to reject SGN's request for a bespoke River and Coastal Erosions - Asset Intervention Strategy re-opener?

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## **South London Medium Pressure Re-opener**

### **Consultation position and rationale**

- 4.16 SGN proposed a re-opener for the South London Medium Pressure replacement project. This forecasted a £30m cost for a major construction project that is to be undertaken across South London. In SGN's Business Plan, it also proposed a PCD for the South London Main project, which seemed to forecast the same total allowance for similar work on the same network.
- 4.17 SGN's Business Plan was not clear on how these proposals were distinct. As set out in paragraphs 2.10-2.15, we propose to accept SGN's PCD proposal. We propose not to introduce a South London Medium Pressure Re-opener, as it is unclear why additional funding would be required during RIIO-GD3.
- 4.18 These consultation positions are subject to SGN providing further details clarifying the differences between the South London Medium Pressure and South London Main projects ahead of our Final Determinations.

SGNQ15. Do you agree with our proposal to reject SGN's request for a bespoke South London Medium Pressure Re-opener?
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## 5. Cost of service

### Introduction

5.1 This chapter sets out our proposals for ex ante totex allowances for SGN in RIIO-GD3. This chapter should be read alongside other parts of our Draft Determinations that set out our overall approach to RIIO-GD3. In particular, Chapter 5 of the GD Annex, which provides more detail on our proposed cost assessment approach, and modelling methodology and process.

### Ex ante allowances

5.2 Our proposed ex ante totex forecast comprise forecast controllable costs on a net basis<sup>8</sup> and is inclusive of our proposed ongoing efficiency (OE) challenge, unless otherwise stated. Figures presented in this chapter do not include real price effects (RPEs), to allow direct comparison with other GDNs.

5.3 Table 13 sets out our proposed efficient allowances for SGN's networks in RIIO-GD3.

Table 13: SGN RIIO-GD3 submitted totex versus proposed allowed totex by network (£m, 2023/24 prices)

Network company	GDN	Submitted totex Dec '24	Ofgem proposed totex	Difference DD vs Dec '24 baseline request	Difference (%)
SGN	Sc	1,342.4	1,051.2	-291.2	-22%
SGN	So	3,203.2	2,378.8	-824.4	-26%
SGN Total		4,545.6	3,430.0	-1,115.6	-25%

### Summary of assessment

5.4 Before modelling SGN's proposed totex using regression analysis, we excluded costs associated with activities considered better suited to non-regression or technical assessment approaches. Table 14 below details our breakdown of submitted totex for SGN's network.

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<sup>8</sup> Net costs are gross costs minus any 'contributions' the GDNs receive from third parties towards the work undertaken. Some activities may have chargeable elements, resulting in full or partial payment by third parties, with the remainder chargeable to customers through the RIIO price control framework.

Table 14: Company submitted totex by cost assessment approach (£m, 2023/24 prices)

<b>Network Company</b>	<b>GDN</b>	<b>Submitted totex</b>	<b>Modelled Regression Costs</b>	<b>Modelled Non-regression Costs</b>	<b>Technically assessed costs</b>
SGN	Sc	1,342.4	1,106.9	142.9	92.5
SGN	So	3,203.2	2,559.9	457.7	185.6
SGN Total		4,545.6	3666.9	600.7	278.1
% of total submitted totex		100%	82%	11%	7%

5.5 Table 15 below sets out the proposed modelling cost and efficient totex allowances for SGN in RIIO-GD3. Modelled costs are subject to pre-modelling and benchmarking efficiency adjustments. Technically assessed costs are subject to technical assessment adjustments only. All costs are subject to the OE challenge.

Table 15: Proposed cost adjustments for RIIO-GD3 (£m, 2023/24 prices)

<b>Network Company</b>	<b>GDN</b>	<b>Modelled cost - pre-modelling adjustments</b>	<b>Modelled costs - benchmarking efficiency</b>	<b>Technically assessed adjustments</b>	<b>Ongoing efficiency adjustments</b>	<b>Total adjustments</b>
SGN	Sc	-107	-64	-35	-86	-291
SGN	So	-280	-294	-80	-170	-824
SGN Total		-388	-358	-115	-256	-1,116

## **Pre-modelling, normalisations and adjustments**

5.6 To ensure that our cost benchmarking is carried out on a comparable basis between GDNs, submitted data may need to be adjusted to correct for inconsistencies and external factors. For example, adjustments may be made to exclude costs that are unsuitable for comparative assessment, or to remove costs associated with work that we propose to separately assess, or where we have not accepted the needs case.

5.7 Table 16 below sets out the proposed pre-modelling adjustments for SGN in RIIO-GD3

Table 16: Proposed pre-modelling cost adjustments for RIIO-GD3 (£m, 2023/24 prices)

<b>Network Company</b>	<b>Network</b>	<b>Submitted</b>	<b>Regional and company specific factors</b>	<b>Cost and workload adjustments</b>	<b>Separately assessed adjustments</b>	<b>Costs after adjustments</b>
SGN	Sc	1,342.4	-12.6	-70.0	-89.4	1,170.4
SGN	So	3,203.2	-165.0	-137.4	-277.0	2,623.7
SGN Total		4,545.6	-177.6	-207.5	-366.4	3,794.1

- 5.8 For a breakdown of regional and company specific factor adjustments, see Chapter 5 in the GD annex.
- 5.9 For SGN, we propose to make £160.2m (net) of downward volume-related pre-modelling adjustments to costs based on the outcome of our engineering assessment. We also propose to remove £17.4m based on the outcome of our assessment of IT & Telecoms.
- 5.10 We have made cost adjustments of £366.4m through our separately assessed non-regression approach, further information can be found in the non-regression section.
- 5.11 We propose to include £18.5 of costs in SGN baseline from two separate NZARD funding proposals, due to the level of cost and needs case certainty for these projects in SGN's Business Plan.
- 5.12 We are proposing to make normalisation adjustments in RIIO-GD2 to account for the different levels of achieved and expected compliance with HSE fatigue legislation. See chapter 5 of the GD annex for further details. We are proposing to maintain the historical loss of meterwork adjustment for SGN for RIIO-GD1, but not extend it into RIIO-GD2.

## **Regression**

### **Pre-modelling engineering and technical review adjustments**

#### Capex proposals

- 5.13 We have reduced costs of £32.7m for SGN's pressure management, governors and preheating replacement programme in line with engineering recommendations, see Appendix 1 for more details on our proposal.
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- 5.14 We propose to remove £53.5m of costs for SGN's intelligent gas grid strategy, functional safety, local gas treatment and network integrity proposals. Based on the evidence assessed in our engineering review, we do not consider the needs case for this project to be justified. More information on our assessment of these proposals can be found in Appendix 1.

#### Repex proposals

- 5.15 We propose to remove £25.0m from SGNs bulk service replacement and other distribution mains and services in line with volume reduction recommended through our engineering assessment.
- 5.16 As discussed in Chapter 3 of the GD Annex, we applied a CBA-payback cutoff to non-mandatory repex work. This has resulted in the proposed removal of £28.7m of costs for other tier 3 mains for SGN.
- 5.17 We propose to not include any forecasts for iron stubs costs at Draft Determinations, see section Chapter 5 of the GD Annex for further information.

#### IT&T proposals

- 5.18 We assessed SGN's IT and Telecoms and systems operation costs (excluding cyber and data & digitalisation) as part of a separate review by our consultants AtkinsRéalis and Grant Thornton. See our GD Annex for our assessment approach.
- 5.19 SGN submitted £130.7m of costs for IT & Telecoms projects, in 12 separate investment proposals. Our consultants reviewed 95% of the overall funding request from SGN. The expert review of each proposed investment recommended that 86% of the overall proposed costs should be allowed based on an assessment of the needs case, value for money, optioneering' and the appropriateness of cost levels associated with the proposed work plans. In line with these proposals, we propose to reduce submitted costs by £17.3m.

#### **Cost drivers**

- 5.20 In this section we describe our proposed adjustments to the drivers that make up the totex Composite Scale Variable (CSV) used in our regression model. Adjustments were made to reflect engineering and costs assessment reviews of SGN's Business Plan. Details on adjustments made are provided for each major cost category: opex, repex and capex.
- 5.21 Table 17 and Table 18 below details the proposed adjustments to the cost drivers for SGN in RIIO-GD3
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Table 17: SGN - Sc proposed adjustments to the cost drivers for RIIIO-GD3

<b>CSV driver</b>	<b>Unit</b>	<b>Submitted</b>	<b>Modelled</b>	<b>Difference</b>	<b>Difference (%)</b>
Repex	£m	375	375	-0.07	-0.02%
Reinforcement	£m	17	8.3	-8.3	-50%
Connections	£m	10.8	10.8	0.0	0.0%
Emergency CSV <sup>9</sup>	Number	2,840,018	2,840,018	0.0	0.0%
External condition reports	Number	25,111	25,111	0.0	0.0%
Maintenance MEAV	£m	8,503	8,503	0.0	0.0%
MEAV	£m	42,226	42,226	0.0	0.0%
SGN - Sc Total <sup>10</sup>	Number	4,550	4,513	-37	-0.8%

Table 18: SGN - So proposed adjustments to the cost drivers for RIIIO-GD3

<b>CSV driver</b>	<b>Unit</b>	<b>Submitted</b>	<b>Modelled</b>	<b>Difference</b>	<b>Difference (%)</b>
<b>Repex</b>	<b>£m</b>	<b>1,093</b>	<b>1,070</b>	<b>-23</b>	<b>-2.1%</b>
Reinforcement	£m	30	15	-15.06	-50%
Connections	£m	14	14	0.0	0.0%
Emergency CSV	Number	6,683,612	6,683,612	0.0	0.0%
External condition reports	Number	72,219	72,219	0.0	0.0%
Maintenance MEAV	£m	16,574	16,574	0.0	0.0%
MEAV	£m	84,699	84,699	0.0	0.0%
SGN - So Total <sup>10</sup>	Number	10,663	10,493	-171	-1.6%

5.22 We have not proposed any adjustments to SGN's submitted MEAV, customer numbers and external condition reports.

<sup>9</sup> Emergency CSV is compiled of customer numbers and external condition reports which make up 80% and 20% respectively.

<sup>10</sup> The total is derived by multiplying the weighted drivers together.

- 5.23 We have proposed downward adjustments to SGN's capex synthetic drivers, reflecting the outcome of our engineering assessment. Specifically, we removed workloads for reinforcements for both the Scotland and Southern networks.
- 5.24 We have proposed downward adjustments to SGN's repex synthetic driver, reflecting the outcome of our engineering assessment. We removed workloads for iron mains greater than 30 metres away from buildings for both Scotland and Southern networks. We also removed workloads for Other Policy & Condition mains for the Southern network.

## **Non-regression**

- 5.25 This section presents an overview of our proposed non-regression assessment for SGN, including adjustments to costs and workloads. The analysis covered the following categories: Multiple Occupancy Buildings (MOBs), diversions, growth governors, streetworks, smart metering and land remediation.
- 5.26 Table 19 and Table 20 below sets out the proposed non-regression cost adjustments for SGN in RIIO-GD3. Where we present modelled costs in the tables below, these are pre-application of the benchmarking and OE adjustments. Our proposed reductions are a combination of cost reductions from removing workloads or costs deemed unjustified following engineering review and application of our proposed non-regression cost assessment approaches. See Appendix 1 for further details of the engineering review and Chapter 5 of the GD Annex for further description of our non-regression assessment approaches.

Table 19: SGN - Sc proposed non-regression cost adjustments for RIIO-GD3 (£m, 2023/24)

<b>Separately assessed activity</b>	<b>Submitted</b>	<b>Modelled</b>	<b>Difference</b>	<b>Difference (%)</b>
Multiple Occupancy Buildings (MOBs)	55.16	4.37	-50.79	-92%
Diversions	15.25	11.96	-3.29	-22%
Streetworks	13.26	13.52	0.26	2%
Smart metering	1.80	0.75	-1.05	-58%

<b>Separately assessed activity</b>	<b>Submitted</b>	<b>Modelled</b>	<b>Difference</b>	<b>Difference (%)</b>
Land remediation	12.15	12.15	0.00	0%
SIU	45.33	45.33	0.00	0%
Growth Governors	0.00	0.00	0.00	0%
SGN -Sc Total	142.94	88.07	-54.87	-38%

Table 20: SGN - So proposed non-regression cost adjustments for RIIO-GD3 (£m, 2023/24)

<b>Separately assessed activity</b>	<b>Submitted</b>	<b>Modelled</b>	<b>Difference</b>	<b>Difference (%)</b>
Multiple Occupancy Buildings (MOBs)	194.55	5.20	-189.35	-97%
Diversions	25.02	16.04	-8.98	-36%
Streetworks	222.03	173.53	-48.50	-22%
Smart metering	5.25	2.19	-3.06	-58%
Land remediation	10.87	10.87	0.00	0%
SIU	0.00	0.00	0.00	0%
Growth Governors	0.00	0.00	0.00	0%
SGN -So Total	457.72	207.83	-249.89	-55%

### Technically Assessed Costs

- 5.27 This section contains an overview of our approach to technical assessment for SGN, including our proposed adjustments to submitted costs. For each category, we present a summary of submitted and our proposed costs (excluding ongoing efficiency).
- 5.28 Table 21 and Table 22 below sets out the proposed adjustments we have made through technical assessments for RIIO-GD3.

Table 21: SGN - Sc summary of technically assessed costs (£m, 2023/24 prices)

<b>SGN -Sc</b>	<b>Submitted allowance</b>	<b>Proposed allowance (excluding ongoing efficiency)</b>	<b>Difference (%)</b>
Technically assessed capex and repex projects	10.9	7.5	-31%
ALD	3.7	3.7	0%
DPLA	17.0	0.0	-100%
Cyber	[REDACTED]	[REDACTED]	[REDACTED]
PSUP	[REDACTED]	[REDACTED]	[REDACTED]
Iron Stubs	2.5	0.0	-100%

Table 22: SGN - So summary of technically assessed costs (£m, 2023/24 prices)

<b>SGN -So</b>	<b>Submitted allowance</b>	<b>Proposed allowance (excluding ongoing efficiency)</b>	<b>Difference (%)</b>
Technically Assessed capex and repex projects	16.1	7.1	-56%
ALD	8.7	8.7	0%
DPLA	33.0	0.0	-100%
Cyber	[REDACTED]	[REDACTED]	[REDACTED]
PSUP	[REDACTED]	[REDACTED]	[REDACTED]
Iron Stubs	14.6	0.0	-100%

### Technically assessed and bespoke project proposals

- 5.29 We propose to allow SGN £2.24m to undertake a replacement of Intermediate Pressure (IP) services and the survey costs for Medium Pressure (MP) services. We are proposing to remove £4.12m of submitted costs as a more robust needs

case including the associated costing is required for Medium Pressure (MP) steel services and end of network services.

- 5.30 We propose to remove £8.16m for technically assessed capex and repex projects where our engineering review found there was a lack of engineering analysis to support the justification provided by SGN.

#### PSUP proposals

- 5.31 We have shared our approach to PSUP assessment directly with the network companies, due to the sensitive nature of this area.

#### Cyber proposals

- 5.32 A detailed breakdown of our consultation position has been shared in confidential annexes that have been shared directly with the network companies for private consultation.

#### Other proposals

- 5.33 We propose to accept SGN's costs of £12.4m for the rollout of advanced leakage detection (ALD) technology across its network. We are proposing to fund DPLA through the NZASP re-opener, therefore we have removed £50.0m from baseline totex. See Chapter 3 of the GD Annex for further details.

### **Proposed cost exclusions from totex**

- 5.34 In this section we provide further details of the cost activities that SGN proposed for technical assessment or as bespoke outputs (ie costs to be excluded from totex) in its Business Plans, but which we have chosen not to exclude from totex at DDs.
- 5.35 In our SSMD we stated that we will continue to set a high threshold for costs that meet specific criteria that justify evaluation outside totex benchmarking. These include materiality, where the costs are significant enough to merit individual scrutiny, and comparability, where unique or bespoke circumstances make cross-company comparisons impractical. Companies must also provide robust justification for separate treatment, demonstrating that the proposal is both deliverable and efficient. Crucially, the project must offer clear consumer benefits, such as enhanced service, reduced risk, or long-term savings.
- 5.36 In its plan, SGN made the following proposals for cost exclusion:
- Vulnerability and Carbon Monoxide Allowance (VCMA)
  - Complex engineering schemes
  - Pressure control and asset health
  - Maintenance of gasholders at Provan
-

- Offtakes - local gas treatment
- Isle of Grain (PRS)

5.37 We have evaluated each of these claims for cost exclusion from comparative regression benchmarking and propose not to exclude them as they do not meet the criteria set out in our SSMD for separate assessment.

## **Engineering assessment of SGN business plan**

### **EJP Review Overview**

5.38 Our review of the Engineering Justification Papers (EJPs) is a critical step in determining whether the proposed workload has been justified.

#### Referencing

5.39 For EJP descriptions please refer to the Draft Determinations Overview Document.

5.40 For SGN EJP recommendations please see Appendix 1.

#### EJP Quality and Data Provision

5.41 SGN adequately followed the EJP guidelines. The EJPs were clear and coherent to review, although at times could be repetitive.

5.42 Our technical analysis found that SGN EJPs often lacked the technical data to support investment, including proposed volumes and costs.

5.43 Volume reductions have been recommended where there is a lack of data to support proposed volumes or there is an increase in volumes from RIIO-2 without substantive justification

#### Consultation Response Expectations

5.44 To ensure that we extract the maximum consumer value we have detailed our expectations for SGN's consultation response in Appendix 1, Table 2.

#### Assessment

5.45 We reviewed 31 SGN Engineering Justification Papers totalling £2.6bn, planned for the RIIO-3 price control period. Following our technical review, 13 out of the 31 EJPs were recommended for approval without any adjustment to cost or volumes.

5.46 A further 10 EJPs were partially justified, but with adjustments proposed to either costs, volumes or both. For the majority of these EJPs it was found that there was a lack of data to support the asset health condition or a lack of substantive justification to support the proposed volumes. Governors, Multi

Occupancy Buildings, and Other Distributions Services lacked sufficient justification to support asset health conditions. Advance Methane Detection, Pre-Heat and Bulk Services lacked substantive data to support the proposed cost and/or volumes. Furthermore, Overbuilds, and Pressure Management lacked the required data to fully justify their need.

5.47 SGN submitted 3 EJPs intended as Re-openers. These included General Reinforcement, River and Coastal, and Wick and Thurso Biomethane. All papers have been reviewed with outcomes proposed.

5.48 5 EJPs were determined to be unjustified. These included: IGG, Cams Hall, Network Integrity, Functional Safety and Local Gas treatment. These 5 projects lacked adequate engineering analysis and suitable optioneering to justify their need and associated costs.

### **Questions**

SGNQ16. Do you agree with our engineering assessment of SGN's RIIO-3 Business Plan?
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## 6. Innovation

### Background

- 6.1 The SSMD, Business Plan Guidance and Overview Document identify the criteria and process that we have used to assess NIA funding requests. The Overview Document also details our proposals for NIA oversight, the SIF, increasing third party involvement and innovation deployment.
- 6.2 We set out below our Draft Determinations on SGN's RIIO-3 NIA funding.

### Consultation position and rationale

#### Summary of consultation position

**Level of Network Innovation Allowance (NIA) funding:** In its Business Plan, SGN requested £30.7m in NIA funding. Following our assessment, we are minded to award £6.16m.

- 6.3 Innovation Strategy: While SGN's Innovation Strategy sets out how it plans to use NIA funding during RIIO-3, it was not clearly set out and lacked the level of detail we had requested in the Business Plan Guidance.
- 6.4 Its key areas of focus were around understanding its consumers' needs, making its current network safer as well as more efficient and sustainable, investing in network transition as well as its future network.
- 6.5 NIA Workstreams: Following our assessment of SGN's proposed workstreams, we are minded to reduce its NIA award by £16.69m, due to the following reasons:
- Today's network: as set out in our Overview Document (Chapter 10), we have decided to retain the Discovery phase of the SIF, so we are proposing to reduce SGN's NIA amount by £1.25m to reflect this, given that they requested this amount to cover the Discovery stage of SIF.
  - Future of gas / hydrogen: for the reasons set out in our Overview Document (Chapter 10), we have decided that NIA is not the most appropriate route for further work relating to future of gas and hydrogen. This led to a reduction of £6.5m from SGN's "Network transition" area of focus (due to the workstreams "Greening the Network" and "Whole System Approach"), and a reduction of £2.14m from "Future network" area of focus (due to the workstreams "I&C Decarbonisation", "CCUS", and "Transport Decarbonisation").
  - Whole system energy planning: based on the information provided, we are not convinced that innovation stimulus funding is needed for this work,
-

given that it is duplicative of the work NESO will be developing as part of its Regional Energy Strategic Planning. This led to a reduction of £6.8m to SGN's award.

- 6.6 Business Plan Assessment: After assessing SGN's Business Plan against the criteria set out in the Business Plan Guidance (BPG paragraph 3.13), it was scored against each of these based on whether it had provided sufficient evidence to justify the amount of NIA it was requesting. Based on SGN's score, we decided to reduce its NIA award by a further 56%. From the criteria, we would have expected additional detail to be given in the following areas:
- Key areas of focus for NIA spending: While SGN sets out the problems it is trying to resolve, these were often not set out very clearly, and it was not apparent which specific parts of these were NIA related, and which were going to be addressed with totex.
  - How activities will be delivered: SGN provided very little information in its Innovation Strategy around how it plans to deliver its innovation activities, such as its internal processes to take an innovation from an early-stage idea to deployment.
  - The values and benefits it anticipates its activities to bring: We would have expected further and clearer information around what benefits SGN expects its NIA portfolio to deliver.
  - Its funding request against RIIO-2: We would have expected SGN to clearly set out its RIIO-3 funding request against its RIIO-2 award.
  - Network collaboration to identify and deliver NIA projects: While SGN occasionally mentioned specific workstreams that it will collaborate with other networks on, there is no information or broader strategy provided on network collaboration to identify and deliver NIA projects.
  - Ensuring projects aren't duplicative: SGN stated that it has implemented an industry-aligned programme and project-control framework to ensure projects encompass no duplication but gives no further information on this.
  - Proposals to disseminate: SGN stated that it plans to disseminate learnings from its trials and innovations but gives no detail on what it has done in the past or what its strategy for dissemination is for the future.
  - An explanation of why the innovation in question cannot be funded from the totex allowance: no substantive information is provided as to why its workstreams cannot be funded through the totex allowance.
-

- Processes to roll-out proven innovation and evidence of this: SGN provided some examples of previous innovation that has been rolled out but does not explain what processes it has in place to ensure and facilitate this.
- Third-party collaboration in innovation activities: SGN provided some information on its plans for third party collaboration, but we would expect it to go into more detail about how it will engage and fully involve third parties in its innovation work.

### **Questions**

SGNQ17. Do you agree with the level of proposed NIA funding for SGN?
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## 7. Data and Digitalisation

### Introduction

- a) The SSMD, Business Plan Guidance and Overview document identify the criteria and process that we have used to assess the funding of proposed data and digitalisation investments. The Overview Document also details our proposals for further digitalisation of the sector through the existing Digitalisation licence condition, a proposed Data Sharing Infrastructure (DSI) licence condition, and a Digitalisation Re-opener.
- b) We have set out below our Draft Determinations on SGN's RIIO-3 data and digitalisation funding.

### Consultation position and rationale

#### Summary of consultation position

**Level of data and digitalisation funding:** In its Business Plan, SGN requested £26.8m in data and digitalisation funding. Following our assessment, we are minded to award £26.8m. We did not reject any investments or identify miscategorised investments.

- 7.1 SGN's digitalisation proposals are shaped by a recognition that high-quality, well-governed data is essential to operating an efficient network, supporting innovation, and meeting the needs of consumers. Their Digitalisation Strategy and Action Plan sets out a clear vision for embedding digital capability across the business, supported by a delivery framework that spans foundational systems through to service-focused outcomes. The programme is structured around three delivery themes: Getting the Basics Right, Platforms and Capabilities, and Business Outcomes. This sequencing reflects a mature understanding of digital transformation and aligns well with the expectations set out in our SSMD.
  - 7.2 SGN's early focus on data governance, catalogue implementation, and master data management is consistent with the principles of the Data Best Practice guidance and supports efficient internal decision-making and future data sharing. These priorities are reinforced by a set of targeted investments, including the development of a data catalogue and metadata standards, a new data integration platform, and a digital twin for asset visualisation. These initiatives are designed to improve data discoverability, enable predictive insights, and support more responsive network operations. We consider these investments to be well-justified and clearly linked to business outcomes.
  - 7.3 SGN has also demonstrated a strong commitment to interoperability and sector alignment. Its proposals include the adoption of open data standards and the
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development of systems that are compatible with wider industry frameworks. SGN has signalled its readiness to participate in the sector-wide DSI and has articulated the technical foundations that will support this, including metadata management and API development.

- 7.4 We are therefore minded to adopt a supportive position on SGN's digitalisation programme. The proposals are consistent with Licence Condition 9.5 and demonstrate a clear, structured approach to embedding data excellence across the business.

### **Questions**

SGNQ18. Do you agree with our proposed level of funding for SGN's data and digitalisation investments?
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## 8. Your response, data and confidentiality

All proposals published as part of these documents are draft proposals, subject to consultation. We will publish our decisions on the RIIIO-3 price controls in our Final Determinations later this year. We will implement our Final Determinations by modifications to the companies' licence conditions, after further consultation on licence drafting

### Consultation stages

- 8.1 Table 23 below sets out the key stages for this consultation and how we will progress from Draft Determinations to Final Determinations.

Table 23: Consultation Stages

Stage	Date
Consultation Open	01/07/2025
Consultation closes (awaiting decision). Deadline for responses	26/08/2025
Final Determinations (including publication of consultation responses)	Winter 2025

### How to respond

- 8.2 We want to hear from anyone interested in this consultation. Please send your response to [RIIO3@ofgem.gov.uk](mailto:RIIO3@ofgem.gov.uk).
- 8.3 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 8.4 We will publish non-confidential responses on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations).

### Your response, your data and confidentiality

- 8.5 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 8.6 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material
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in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

- 8.7 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 2.
- 8.8 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

## **General feedback**

- 8.9 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
1. Do you have any comments about the overall process of this consultation?
  2. Do you have any comments about its tone and content?
  3. Was it easy to read and understand? Or could it have been better written?
  4. Were its conclusions balanced?
  5. Did it make reasoned recommendations for improvement?
  6. Any further comments?

Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

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## How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit.

[ofgem.gov.uk/consultations](https://ofgem.gov.uk/consultations)

Notify me +

Would you like to be kept up to date with *Consultation*  
*name will appear here?* subscribe to notifications:

Email\*

Submit >

Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

**Upcoming** > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

## Appendix 1 – Summary of Engineering Review

Table 24: Summary of SGN Approved EJPs

<b>OSR</b>	<b>Title</b>
SGN-GD3-EJP-DST-009	Remote Pressure Management Strategy
SGN-GD3-EJP-E&I-004	Metering Upgrade
SGN-GD3-EJP-G&I-001	Cathodic Protection
SGN-GD3-EJP-G&I-004	High-Capacity Governors
SGN-GD3-EJP-LTS-001	Compliance Scotland & Southern Networks
SGN-GD3-EJP-LTS-002	Full Site and System Rebuilds
SGN-GD3-EJP-LTS-003	Glenmavis System Rebuild and Rationalisation
SGN-GD3-EJP-LTS-004	Isle of Grain PRS Full System Rebuild & Odorant System Replacement
SGN-GD3-EJP-LTS-006	LTS HP Pipelines
SGN-GD3-EJP-LTS-008	Pressure Control Asset Health
SGN-GD3-EJP-LTS-009	Welling PRS-Full Site Rebuild
SGN-GD3-EJP-RPX-004	South London Main
SGN-GD3-EJP-RPX-005	Trier 1 mains and Services

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Internal Only

Table 25: Summary of SGN Engineering Review

<b>EJP</b>	<b>Needs Case</b>	<b>Optioneering</b>	<b>Scope Confidence</b>	<b>Comments</b>
<p>Advanced Methane Detection Strategy</p> <p>SGN-GD3-EJP-DST-001</p>	Partially Justified	Partially Justified	Low	<p>Proposed Outcome: Partially Justified</p> <p>This project aligns with HSE’s mandated IMRRP policy on condition monitoring. We support SGN's proposal to rollout Advanced Leakage Detection (ALD) to align with HSE's policy, however the quality of this EJP was not fully justified. The optioneering is unrefined, the technology and technology provider has not yet been established. This gives rise to uncertainty around viability and associated costs. The assignment of costs is unclear. There is a lack of detail regarding the roles of all proposed equipment and services. Furthermore, the IT integration and data application is unclear and will be required to fully justify investment.</p> <p>We have provisionally included ALD costs within our regression model as we consider it is important to rollout ALD to meet the new HSE requirements. However, the decision on these costs is subject to GDNs providing further information in their Draft Determination response as set out in Chapter 3 of the GD Annex. If the required information is not provided, or deemed insufficient, the associated costs may be reduced or disallowed.</p>

<b>EJP</b>	<b>Needs Case</b>	<b>Optioneering</b>	<b>Scope Confidence</b>	<b>Comments</b>
Steel Services Operating above 75mb  SGN-GD3-EJP- DST-002	Partially Justified	Not Justified	Medium	<p>Proposed Outcome: Partially justified. We propose to reduce volumes.</p> <p>The needs case for IP services and the associated workload is justified. However, a more robust needs case including the associated costing is required for MP steel services and end of network services. The survey costs for these assets have been justified however more detailed evidence to support the proposed volumes for MP steel and end of network services is required therefore we propose to reduce the volumes for these assets for Draft Determinations.</p>
Overbuilds  SGN-GD3-EJP- DST-003	Partially Justified	Not Justified	Low	<p>Proposed Outcome: Partially justified. We propose to reduce volumes.</p> <p>The needs case for an initial comprehensive desk top study is justified. Further refinement of the data from GD2 and GD3 studies is required to support the justification for the proposed implementation of a GIS.</p>

<b>EJP</b>	<b>Needs Case</b>	<b>Optioneering</b>	<b>Scope Confidence</b>	<b>Comments</b>
Multi-Occupancy Buildings SGN-GD3-EJP-DST-004	Not Justified	Partially Justified	Medium	<p>Proposed Outcome: Partially justified. We propose to reduce volumes.</p> <p>The need for PIV replacement is justified. However, a data asset repository has not been provided for MOB's therefore unable to determine if poor health condition assets were programmed for intervention. The proposed PE riser interventions is a blanket replacement for all 6+ floors, this is inconsistent with our interpretation of the building regulations. Limited details for CDS and maintenance has been provided. More robust data is required to support the needs case for MOB's, PE riser interventions, CDS and maintenance. These volumes have been reduced for Draft Determinations. The data includes but is not limited to specific asset reference/site details, material, building type (floors), asset health score, date of installation, intervention plan, environmental conditions, historical intervention.</p>
General Reinforcement SGN-GD3-EJP-DST-005	Not Justified	Partially Justified	Low	<p>Proposed Outcome: We propose reopener funding may be more appropriate.</p> <p>The reinforcement work is not well defined. There is a lack of technical analysis to support proposed work. A detailed cost breakdown has not been provided and the unit cost per volume varies widely. More substantial data should be submitted which supports reinforcement volumes.</p>

<b>EJP</b>	<b>Needs Case</b>	<b>Optioneering</b>	<b>Scope Confidence</b>	<b>Comments</b>
Intelligent Gas Grid (IGG) Strategy SGN-GD3-EJP-DST-006	Not Justified	Not Justified	Low	Proposed Outcome: Not justified  The justification for IGG is heavily dependent on the outcome of the current associated innovation project. It would be prudent for the innovation project to conclude before additional funding is considered. No CBA was provided, and the failure rates are unknown. More substantive evidence is required to support needs case.
River and Coastal Erosion - Asset Intervention Strategy SGN-GD3-EJP-DST-008	Partially Justified	Partially Justified	Medium	Proposed Outcome: We propose reopener funding may be more appropriate. We propose this is funded through the existing Diversions and Loss of Development Claims reopener as detailed in paragraphs 4.14 - 4.15 and Chapter 4 of the GD Annex.  The needs case is not strongly founded. More detail is required on the proposed proactive element and the associated funding request. The reactive asset protection is a justified approach.
Pressure Management Maintenance SGN-GD3-EJP-DST-010	Partially Justified	Partially Justified	Medium	Proposed Outcome: Partially justified. We propose to reduce volumes.  Most of the proposed volumes account for battery replacements, the request is 3 replacements per price control, however manufacturer data states batteries for Cello should last 5 years, therefore a reduction in battery volume is proposed.
Functional Safety SGN-GD3-EJP-E&I-002	Partially Justified	Not Justified	Medium	Proposed Outcome: Not justified  The need for investment is unjustified, as supporting data has not been provided. More robust optioneering is required. Data such as specific site name, confirmation of communication interruptions, fault rates, asset health

**Consultation** - RIIO-3 Draft Determinations - SGN

<b>EJP</b>	<b>Needs Case</b>	<b>Optioneering</b>	<b>Scope Confidence</b>	<b>Comments</b>
				score, age, criticality, UPS status, confirmation of non-compliance and space concerns for each site should be provided.
Local Gas Treatment SGN-GD3-EJP-E&I-003	Partially Justified	Not Justified	Medium	Proposed Outcome: Not justified  There is a lack of data to support the proposed investment. Details such as specific site name, confirmation of communication interruptions, fault rates, asset health score, age, criticality, UPS status, confirmation of non-compliance and space concerns for each site needs to be provided.
Governors Other SGN-GD3-EJP-G&I-002	Partially Justified	Partially Justified	Low	Proposed Outcome: Partially justified. We propose to reduce volumes to the 'do minimum' option.  The majority of proposed 412 interventions are rated HI2. Only 9 interventions are rated HI 4/5. There is insufficient justification to replace assets HI2 and below. More evidence would be required which supports the need to invest in a higher volume of assets.
Network Integrity SGN-GD3-EJP-G&I-003	Not Justified	Not Justified	Low	Proposed Outcome: Not justified  A more comprehensive engineering analysis is required to justify volumes. Details such as run rates to justify inspection volumes and associated remediation volumes, unit costs and justification of costs and an asset health analysis to justify condition.

<b>EJP</b>	<b>Needs Case</b>	<b>Optioneering</b>	<b>Scope Confidence</b>	<b>Comments</b>
R6 Governors SGN-GD3-EJP-G&I-005	Partially Justified	Partially Justified	Low	<p>Proposed Outcome: Partially justified. We propose to reduce volumes to align with the proposed 'do minimum' option.</p> <p>The number of proposed interventions is high. The proposed number of assets scoring HI3 or above is estimated to equate to approximately 13% of the total proposed interventions. There is insufficient justification to replace assets below HI3. More substantive evidence would be required which supports need to invest in a higher volume of assets.</p>
Preheating Replacement Programme SGN-GD3-EJP-LTS-007	Partially Justified	Justified	High	<p>Proposed Outcome: Partially justified. We propose to reduce volumes.</p> <p>There is a high level of risk associated with the deliverability of these projects (60%) due to environmental and permitting concerns. Based on the data provided and the narrative in the EJP, volume reductions have been proposed. All site details and planned interventions have been provided alongside specific site costs. More substantive evidence would be required to support needs case of increased volumes.</p>
Bulk Service Replacement SGN-GD3-EJP-RPX-001	Justified	Partially Justified	Medium	<p>Proposed Outcome: Partially justified. We propose to reduce volumes to align with the proposed 'do minimum' option.</p> <p>The proposed volumes are much higher than historical volumes and the associated costs are not proportionate. The optioneering is limited and there is lack of evidence to support the preferred option. Clarity is required on the programme changes between price controls.</p>

<b>EJP</b>	<b>Needs Case</b>	<b>Optioneering</b>	<b>Scope Confidence</b>	<b>Comments</b>
Cams Hall SGN-GD3-EJP-RPX-002	Partially Justified	Not Justified	Low	<p>Proposed Outcome: Not justified</p> <p>Overall, there is a lack of engineering analysis to support the justification. There is no analysis provided of any corrosion at any of the accessible points out with the tunnel. No analysis of concrete tunnel provided. No analysis of asset health condition or pressure monitoring analysis. The proposed option also incorporates the replacement of steel mains within the scope, with no evidence to support the need for replacement.</p>
Other Distribution Mains and Services SGN-GD3-EJP-RPX-003	Justified	Justified	High	<p>Proposed Outcome: Justified, with a volume reduction for &gt;30m iron mains.</p> <p>The proposed locations, associated challenges and criticality are justified. SGN have requested a reopener for &gt;30m iron mains, the volume included in the EJP for this asset type has been reduced. We propose not to introduce a bespoke re-opener for &gt;30m iron mains, as outlined in paragraphs 4.12 - 4.13. We think SGN should resubmit information about their forecasted &gt;30m iron mains workload, and, if justified, this should be funded through NARM.</p>
Wick and Thurso SIU- Compressed Biomethane (CNG) SGN-GD3-EJP-SIU-001	Justified	Partially Justified	High	<p>Proposed Outcome: We propose re-opener funding may be more appropriate.</p> <p>The needs case is justified and in line with net zero ambitions. We agree that this EJP should be assigned as a reopener and should be submitted during the price control period. There is an outstanding feed study associated with this proposal, which will further refine costs and will influence the proposed option.</p>

## **Appendix 2 – Privacy notice on consultations**

### **Personal data**

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

#### **1. The identity of the controller and contact details of our Data Protection Officer**

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

#### **2. Why we are collecting your personal data**

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

#### **3. Our legal basis for processing your personal data**

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

#### **4. With whom we will be sharing your personal data**

We will not share your personal data with any other person or organisation.

#### **5. For how long we will keep your personal data, or criteria used to determine the retention period.**

Your personal data will be held for 12 months after the project is closed.

#### **6. Your rights**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it

- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

**7. Your personal data will not be sent overseas**

**8. Your personal data will not be used for any automated decision making.**

**9. Your personal data will be stored in a secure government IT system.**

10. More information For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".