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Dear Donald and Michael,

Call for Input – Independent Gas Transporters’ Relative Price Control

Thank you for the opportunity to respond to your call for input on the Independent Gas Transporters’ Relative Price Control. I can confirm that our response is not confidential to Ofgem and may be published.

I am writing on behalf of ES Pipelines Ltd, (IGT) which forms part of ESP Utilities Group Ltd (ESP). The ES Pipelines IGT business was established in 2000 and we were heavily involved in discussions which led to the implementation of the Relative Price Control (RPC) arrangements in 2004. We now serve over 700,000 connected gas premises right across Great Britain.

Given our longevity and understanding of the challenges which pre-dated the advent of the RPC arrangements we are pleased to be able support Ofgem’s current Call for Input.

The need for Relative Price Control

The May 2002 Consultation Document¹ set out the challenges which RPC was designed to address namely; lack of transparency and consistency in IGT charges, lack of incentives to invest and operate efficiently, and cross subsidy of activities distorting competition. These issues led to a concern that consumers were not benefitting from competition in the gas connections market.

A number of options were documented in the May 2002 review to provide assurance that not only was it clear that consumers were no worse off on IGT networks initially, but that the enduring framework would continue to provide that assurance and transparency.

The Aims of the RPC Framework

The guiding principle of the RPC framework is that charges should match those of the GDNs when the connections are first made, and are amended in subsequent years in line with the equivalent GDN price changes, either up or down. In order to offer some protection for IGT investors, to promote competition in

¹The regulation of Independent Gas Transporter charging - Consultation Document - [Date of document](#)

the sector and to ensure consumers were also protected from steep price rises, a ‘cap and collar’ mechanism was implemented providing a corridor which IGT charges remain within, regardless of changes which might impact GDN charges. It was intended that the cap and collar be removed after 20 years i.e. in 2024, and for IGT charges to revert to the GDN equivalent charges.

Importantly the RPC solution also met the requirements of Competition law in allowing competitors (the IGT) business to compete on the same basis as the dominant (GDN) provider. GDNs are required to ensure that the prices which it sets for the operation of the upstream element allow IGTs to make a margin that the GDN’s own downstream business would make if it operated standalone, including all relevant efficient costs. Linking IGT charges to the GDN charges satisfies this fundamental aspect of competition law.

How RPC has performed

The RPC arrangements have stood these tests over time, and Ofgem concluded in 2014, the first opportunity to review the framework, that a review was not required. Nor was a review instigated ahead of the 2024 anniversary, as might have been expected, given the initial intention for the framework to persist for a twenty-year period.

The benefit in terms of competition are clear in that 80% of all new homes are connected by IGTs; the benefit to consumers is in charges being pegged to GDN charges, which are set under the RIIIO Price Control process at the efficient frontier; the model has itself been re-used effectively in both Electricity and Water network competition. Our view remains that the fundamental approach to Relative Price Control works well for consumers and competition and drives economic growth.

The need for change

As identified in the CFI, it is recent developments that have now triggered a need to review the charging arrangements, in particular, *“IGTs ability to accelerate recovery of historical investment through charging is potentially constrained under the current framework because of the restrictions placed on IGT charges by the RPC ceiling”*. This is linked to the decision to accelerate the GDN depreciation charges in the Ofgem SSMD, published in July 2024.

This decision means it is now necessary to make some adjustment to the RPC arrangements to avoid the unintended consequence that consumers on IGT networks are charged for “accelerated depreciation” which is prevented, by the RPC ceiling, from meeting that need to recover historical investment.

We believe it is paramount that the guiding principle behind RPC, to ensure that customer are no worse off on an IGT network than they would be if they were served by a GDN network, should be protected and retained. This is of particular relevance when considering the principle duty of Ofgem to *“protect the interests of existing and future gas and electricity consumers, including their interests in net zero targets being met”*

We have set out our answers to the questions posed below.

Q1. To what extent do you support a review of the IGT RPC framework? How do recent developments, including those we have listed or any others of which you are aware, inform your opinion? We are

especially interested in views in relation to the following perspectives: a. Interests of existing and future gas consumers; b. System decarbonisation to achieve net zero; c. Economic growth

We are supportive of a review of the current IGT RPC Framework to ensure that there is no unintended consequence from the decision to accelerate the recovery of gas asset investments. Without some limited reform which allows IGTs to recover this investment in the same way as GDNs there is a risk that:

- Under the price cap, existing customers will be charged for accelerated depreciation, but this revenue will not flow to IGTs and its intended purpose.
- some IGTs may face financial challenges introducing security of supply and other uncertainty concerns for current and future consumers.
- investors will build additional risk costs into IGT (and wider Utilities) funding, impacting the economic growth which the RPC framework has supported.

Q2. To what extent does our proposed review scope meet your expectations? If the proposed scope does not meet your expectations, please provide details of what should be excluded / included and your reasons for those exclusions / inclusions.

We do not consider that a review focused on IGT costs is the appropriate approach to this review as it ignores the competition law principle that competitor companies must be able to compete on the same basis as the dominate company, as set out above. The original principle of the Relative Price Control, providing certainty that consumers are protected from charges in excess of those already confirmed to be appropriate for the provision of the service, is not met by the proposed cost-based approach of this review.

There are also practical implications for this approach. ESP operates as a multi-utility business with shared services across our different licensed entities and portfolios; we understand that other IGTs will have different operating models and thus identifying costs which can be compared on a like-for-like basis will be complicated and will require significant guidance and time to achieve. We are concerned that information provided and reviewed without fully identifying these differences could lead to inaccurate comparisons which would not assist Ofgem's analysis or stand up to scrutiny.

We believe that the scope of Ofgem's review should focus on the aspects of the IGT charging arrangements which are impacted by recent developments outlined in the CFI, namely the decision to accelerate the recovery of historical investment and the ceiling constraint faced by the majority of IGT charges. It is critical that this review addresses these points to ensure that the IGTs can achieve the same margin as the GDNs equivalent notional downstream business in line with competition law requirements.

Ofgem may also wish to review the service levels provided by IGTs to ensure that consumers are receiving equivalence in customer service as well as charges with the relevant GDN.

Q3. To what extent does our proposed approach meet your expectations? If the proposed approach does not meet your expectations, please explain why and what could be done to meet your expectations.

We understand and support Ofgem's intention to conduct its review in a rigorous and appropriate manner with due regard to the impact for current and future consumers. The scope and extent of consumers on IGT networks and the charges levied on them, are important factors in understanding the effectiveness of the current regime and informing decisions on any changes.

Q4. To what extent do you agree that the information and data suggested at paragraph 2.7 is reasonable and sufficient for the purposes of the proposed review? If you consider that the information being requested is unreasonable or insufficient, please explain why and provide any amendments, alternatives or additions.

We do not agree that all of the data identified at 2.7 is appropriate and set out below our views under the headings provided in the Call for Input.

Details and estimates of IGT operations

We agree it is reasonable and helpful to Ofgem to understand the volume and type of consumers served by IGT networks. There is a question over what is intended by item ii) Network asset value (Quantitative) and we would be grateful for further guidance from Ofgem on what is required here.

Details and estimates of operating and capital expenditure

As noted in our response to Q2, we do not believe a cost-based approach to this review is appropriate, and we consider the items detailed under this heading are not likely to provide useful inputs for Ofgem's analysis.

Details and estimates of IGT revenue and profit. Charges made for connections to the various supply point descriptors is readily available; guidance on whether average (by region, year of entry, property type) and the difference between (2) Commercial and (3) Industrial would be welcome. However, the operating and net profits information will rely on different accounting methods and will not provide a useful comparison tool for Ofgem.

Market factors that may influence IGT operations, revenue & profit

Behavioural change by consumers is unpredictable and will be influenced by Government policy and grants or subsidies for alternative heating solutions. Some of this work is already under review in the gas disconnections framework review.

Non- market factors that may influence IGT operations, revenue & profit

The responses here would be speculative based on unknown future regulation.

Details of quality of service:

Outage and compliance information should be split between that which is a result of the upstream network and that which is under the direct control of the IGT. It will also be useful for Ofgem to review IGT GSOP data in this context.

Q5. How much of the information and data set out in paragraph 2.7 could reasonably be provided?

As identified in our response to Q4 a number of the data sets will not be readily available without significant work to develop a common approach that will be challenging in the timeframe for this review. We are keen to continue to work collaboratively with Ofgem to develop a data set that will both satisfy the regulators requirements and provide meaningful information on which to base a review of the current arrangements.

Q6. What lead times are reasonable for the compilation and submission of the information and data set out in paragraph 2.7?

Information relating to IGT networks and consumers, as well as outage and complaint data should be relatively straightforward to provide – albeit some of the data is likely only to be available as snapshot rather than over a 7-year historical period i.e. consumer vulnerability data. Where we have identified challenges with the data sets, i.e. costs and profits we would need to work closely with Ofgem to clearly understand the requirement and benefit of this data in order to provide a timeframe in which it might be able to be provided.

Q7. Are there any sensitivities around the collection, use and disclosure of the information and data to be requested?

Some of the data requested, including on vulnerable customers, will need to be treated sensitively and we will identify any confidential items in our final data return.

Please let me know if you have any questions on our submission or would like to discuss any aspect of our response in more detail.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'V Spiers', with a stylized flourish at the end.

Vicki Spiers
Regulations Director

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