

25 March 2025

Our ref:TC/RPC

Gas Systems Operation Unit
Ofgem
10 South Colonnade
London
E14 4PU

By email only to gas.systems@ofgem.gov.uk

Re: Independent Gas Transporters' Relative Price Control – Call for Input

Dear Donald and Michael

We welcome the opportunity to respond to Ofgem's call for input on IGTs' Relative Price Control (RPC). BUUK operates licensed independent gas transportation businesses whose revenue is controlled by RPC and the framework underpins all the revenue generated by those businesses.

As such changes to the framework are very important to BUUK and it is necessary to ensure that any review of the current framework takes into account a wide range of factors including:

- the impact to consumers
- the broad obligations of industry participants to comply with competition law.

The current gas RPC was introduced in 2004 with the aim of ensuring IGT charges remained broadly in line with GDN charges to protect customers. The gas RPC includes a floor and ceiling mechanism, unlike the electricity RPC or similar arrangements in Water. The floor and ceiling were requested by IGTs in 2003 as part of the agreement to introduce RPC with IGT's giving up previous more favourable arrangements.

Ofgem's published intention in 2003 stated that the floor and ceiling arrangements would be ended after 20 years, and IGT tariffs would revert to the GDN equivalents. This time has now passed, and the removal of the floor and ceiling should now be implemented.

As GDN charges have generally outstripped the pace of inflation, the ceiling has acted to restrict IGT tariff increases and IGT charges have been much lower than the equivalent GDN charges and as a consequence has led to reduced transportation charges to shippers in the hundreds of millions of pounds over the 20-year life of RPC.

Ofgem sets out three developments which have necessitated this call for input. We recognise each of these, and the combination of them, means that the current gas RPC will need some adjustments to ensure that IGTs can recover investments made and future costs to disconnect, decommission, or repurpose the network.

However, the scope and information set out in the call for input is unnecessary, disproportionate and at odds with generally established competition law principles.

We are concerned that the scope of the information requested has the potential to distract from the work required to make changes to RPC and that it is not relevant to the key axiom of RPC, that IGT prices are pegged to the equivalent GDN price.

This tenet ensures that customers are protected from excess charges but also ensure that IGTs earn the same revenue as the equivalent notional downstream business of the GDN for providing equivalent services. If Ofgem deviates from these principles then it is possible that it will put GDNs in breach of competition law, could distort the market for gas transportation and lead to market and consumer harm.

We welcome a review into RPC on the basis that this could resolve the issues which Ofgem have set out in its call for input, and we believe this review should implement the previous Ofgem path to GDN equivalent tariffs by 2024.

IGTs are currently restricted from being able to recover accelerated depreciation costs which are being allowed to GDNs through the RIIO-GD3 price control because of the operation of the floor and ceiling which Ofgem previously decided to remove in 2024.

We note that Ofgem's primary responsibility is the interests of current and future energy consumers. This proposal will have no impact on current consumers as the retail price cap methodology already utilises the GDN transportation charge to calculate the cap.

We believe that retailers have received a windfall from the operation of the ceiling as the savings made have not been passed on to consumers. Further, allowing IGTs to be able to recover depreciation costs or other future of gas costs on an equivalent basis to the GDNs ensures stability and continuity of IGT businesses and protects future energy consumers.

We have set out answers to Ofgem's questions in Annex 1 and would welcome continued engagement in developing a proportionate and practical approach to regulating IGTs which protects consumers and ensures that IGTs can finance their businesses.

Yours Sincerely

Tom Cadge

Head of Regulatory External Affairs

Q1. To what extent do you support a review of the IGT RPC framework?

We welcome a review of the IGT RPC framework to the extent which it has been set out in paragraph 1.12 of Ofgem's call for input. That is to say, that the majority of IGT connected supply points are being charged at the ceiling, that Ofgem have made a decision on RIIO-GD3 to allow GDNs to recover accelerated depreciation, and that there are future costs associated with disconnections and/or future of gas which are not congruent with the current framework. IGTs face the same challenges in depreciating the value of their network, and potentially (subject to Ofgem's review on the disconnection process) socialising the costs of disconnections. These factors, combine with the first point in paragraph 1.12 mean that the current RPC framework is not sustainable and risks IGT businesses being unable to finance their activities in the future. However, we believe that these issues can be easily addressed with keyhole surgery, and we do not believe that there is a case made for a wider review of the arrangements given the relatively short timeframe in which this review needs to take place (i.e. by April 2026 to align with the start of RIIO-GD3). We do not believe that it is in the consumer interest to entirely unpick a model which has delivered significant growth and investment into the sector and into GB. Any wider review would unnecessarily risk investor confidence in other Ofgem regulated sectors and would lead to delays in implementing tangible deliverables.

Q2. Do what extent does the proposed scope of the review meet your expectations.

As per our answer to question one, we believe that the stated aims and rationale for a review have been well stated, however, the scope of the review does not match those stated challenges. The scope of the review seeks to go beyond the aims and to collect unnecessary and, to an extent, irrelevant data without any clarity over any additional problems or challenges which this data would be required to resolved. We noted in our letter above that the costs which are relevant to the price setting for IGTs are the GDNs' costs as these set a benchmark, based on Ofgem's price control efficiency, of an equivalent notional downstream business. Such a benchmark is a well-established concept under competition law and we believe that the scope of the review, and the proposed approach, have the potential, should the IGT data be used as a basis for setting prices for IGTs to contravene competition law. We would urge Ofgem to reconsider the value of collecting this data where the basis of the charge must be based on the equivalent upstream operator's costs given there is significant administrative costs and time burden in collecting the data.

Q3. To what extent does out proposed approach meet your expectations

As noted above, the proposed approach is unnecessary and is likely to risk implementation of solutions which can readily be demonstrated to have positive impacts to consumers in the long term with zero impacts on customers today.

We believe Ofgem's approach should be to seek remedies for the issues which have been set out in the call for input. We, along with other members of the Independent Networks Association (INA), have set out the problem statement and have developed proposals to resolve those problems. We believe that the approach of this work would be better directed

in developing those proposals with industry to ensure that they can be implemented by 1st April 2026.

Q4. To what extent do you agree that the information and data suggested at paragraph 2.7 is reasonable and sufficient for the purpose of the proposed review.

We believe that the information and data suggested at paragraph 2.7 is excessive and unnecessary. The collection of data which moves Ofgem away from a relative price control as it does not relate to the costs and inputs of the GDN is a distraction from resolving the issue at hand of ensuring that IGTs, and IGT connected customers, are treated on an equivalent basis to the GDNs.

Equivalency is the key principle of Relative Price Control which has served the gas transportation market for over 20 years and it is a principle which needs to be retained to ensure that tariffs for IGTs, and the tariffs charged by GDNs to transport gas to the boundary, are compliant with competition law.

It may be necessary, in understanding the scale and scope of the outlined issues for Ofgem to collect data on IGT customer numbers, the value of assets which are yet to be recovered and the quantity of supply points which are charged at the ceiling (and the floor). This can be used to demonstrate the challenges and provide justification for the review outcomes to resolve the demonstrated issues.

It is important to reiterate that increases in IGT charges will not mean that consumers pay more as the charges from retailers to consumers are, at large, governed by the transportation charges levied by GDNs. We are not aware of a single retailer which provides a discount to IGT connected customers where the transportation charge is constrained by the ceiling and therefore lower than the GDN equivalent price. We estimate that there are around 2 million such customers across all IGTs in GB.

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

As explained above, we do not believe that providing the suggested data is helpful in this review as it is the GDN data that is needed to set charges. We believe that Ofgem's and industry's efforts are better directed in providing data as per our answer to Question 4.

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

We suggest the collection of the data will take us around 6-8 weeks. We are able to provide the information we believe more relevant to inform Ofgem's targeted review, as in our answer to question 4, in a shorter lead time of 2-4 weeks.

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

Yes, we believe that all the information which has been requested, and all the information which we believe needs to be provided is commercially sensitive to Ofgem and should not be disclosed on a disaggregated basis such that any individual outside of Ofgem would be able to discern to which IGT any of the information relates.