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Response to RIIO-3 Draft Determinations for the Gas Transmission sector

Addressed to: RIIO3@ofgem.gov.uk

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IES Utilities Group Limited provide construction, maintenance, and utility services across the UK. We operate across Gas transmission / distribution, water, electricity, telecoms and future networks working for National Gas, Cadent Gas, Northern Gas Networks, BT, Scottish Power, Electricity North West, UKPN, SSE, Northumbrian Water, Wessex Water, Essex and Suffolk Water, Welsh Water, United Utilities and Yorkshire Water. As a business We are committed to delivering exceptional customer service safely across the UK and Europe.

We welcome the opportunity to respond to Ofgem's draft determinations on RIIO-3 Plans for the Gas Transmission sector, and appreciate the extensive work Ofgem has undertaken to review and assess the business plans submitted across Gas Transmission, Electricity Transmission and Gas Distribution.

As highlighted in our earlier response to the Call for Evidence concerning the RIIO-3 Plans, we have actively engaged with National Gas throughout the RIIO-T2 phase and have conveyed our support and confidence in their business plan for RIIO-GT3. We have been particularly focused on collaborating with National Gas to enhance operational efficiencies and implement specific improvements that align with safety standards, support the transition to net zero, and resonate with National Gas' vision. This collaborative effort aims to prepare us for an increase in workload on the network during the upcoming price control period, ensuring that we can effectively meet the demands for greater capacity while maintaining our commitment to sustainability and safety.

We note that within Ofgem's draft determinations, much of National Gas' proposed capex volumes have been reallocated from baseline funded works into in-period Uncertainty Mechanisms. As a key supplier of National Gas we carry out a range of maintenance activities including blasting, coating, ILI / CIP Digs, NARC, new connections and fault repair for National Gas, we express concerns over the effects that the scale of this reallocation might have on the supply chain.

We are worried that granting approval for significant capital works during the period, rather than at the final determinations, could lead to unintended consequences for the supply chain, including:

- **Reduced program certainty and continuity:** This disrupts our collaboration with National Gas in establishing a clear, consistent, and committed work program. Planning and optimizing the future pipeline of work with National Gas has been a fundamental aspect of our operational improvements and is essential to our collaborative approach ahead of RIIO-GT3.

- **Investment hesitation:** Uncertainty may undermine confidence in investing in new gas-specific or transmission-specific equipment and innovations due to the lack of a clear work pipeline. This can also hinder our ability to bid for projects if there is less assurance that the work will come to fruition.

- **Resource planning challenges:** The market is becoming increasingly competitive for skilled labour and resources. Unclear future workloads diminish our ability to invest in and secure specialist resources with confidence. We are witnessing increasing demand for resources across all utility sector verticals where increased capital investment programmes are exacerbating the challenge ahead. The competitive pressures coming from both water and electricity sectors are injecting significant inflationary pressures for skilled resources, particularly as their investment cycles have already begun. In many cases this approach is likely to result in additional costs incurred and delays to projects, relative to if we are able to set out procurement plans for such items ahead of time, bulk-purchase materials or set out better terms with manufacturers and suppliers.

- **Procurement inefficiencies, cost, and delay risks:** Uncertainty restricts our procurement options, especially for items with long lead times. We are unable to leverage overall volumes across the portfolio to source materials and products that meet future demand, potentially increasing our exposure to price fluctuations and extended lead times.

- **Imbalance with the Electricity Transmission sector:** Increasing the discrepancy between gas and electricity transmission sectors in their ability to procure heavy electrical items, given that the electricity transmission networks have been afforded an advanced procurement mechanism for such items, many of which already have long lead times.

In conclusion, we are eager to collaborate with National Gas to implement essential investments in the gas transmission network to ensure resilience, maintain safe risk levels, and advance toward net zero. However, we are concerned that the proposed shift of substantial volumes of work into in-period uncertainty mechanisms introduces extra delivery risks, diminishes opportunities for efficiency, and could ultimately increase costs for end consumers.

Yours sincerely,
For and on behalf of IES Utilities Group Limited



Ged Shannon
Managing Director