



Overview Question Responses (OVQ)

August 2025

Contents

CHAPTER 1	SUMMARY OF RESPONSES	3
CHAPTER 2	INTRODUCTION	7
2.1	Stakeholder engagement and consumer voice	7
CHAPTER 3	SCENE SETTING & STRATEGIC DESIGN	8
CHAPTER 4	OUTPUTS AND INCENTIVES	10
4.1	Cross-sectoral outputs	10
4.1.1	Environmental Action Plan and Annual Environment Report ODI-R	10
4.1.2	Operational Transport Emissions Reduction PCD	11
4.1.3	Network Asset Risk Metric (NARM)	18
4.1.4	Physical Security PCD - ET and GT	19
4.2	Other policy areas	19
4.2.1	Climate Resilience	19
4.2.2	Workforce Resilience	19
4.2.3	Supply Chain Resilience	20
CHAPTER 5	BUSINESS PLAN INCENTIVE (BPI)	20
5.1	Business Plan Incentive assessment	20
CHAPTER 6	MANAGING UNCERTAINTY	21
6.1	Cross-sectoral uncertainty mechanisms	21
6.1.1	Whole Systems Co-ordinated Adjustment Mechanism (CAM) Re-opener	21
6.1.2	Net Zero and Re-opener Development (NZARD) UIOLI - GD and GT	22
6.1.3	Net Zero Pre-Construction and Small Projects (NZASP) Re-opener - GD and GT	24
6.1.4	Resilience Re-opener	25
6.1.5	Real Price Effects (RPEs)	25
CHAPTER 7	GAS DEPRECIATION	27
7.1	Gas depreciation	27
CHAPTER 8	COST OF SERVICE	27
8.1	Ongoing Efficiency	27
CHAPTER 9	INNOVATION	30
9.1	Network Innovation Allowance (NIA)	30



9.2	Strategic Innovation Fund (SIF)	31
CHAPTER 10 CYBER RESILIENCE		35
10.1	Background	35
CHAPTER 11 DATA AND DIGITALISATION		35
11.1	Digitalisation licence condition	35
11.2	DSI Licence condition	36
11.3	Digitalisation re-opener	36

Chapter 1 Summary of responses

#	Question	Agree / disagree	Summary of Response
OVQ1	We would welcome any views on the enduring role of the ISGs during RIIO-3 and for future price controls.	Agree	SGN is supportive an enduring role for the ISGs. We believe that the continuation of the ISG during the delivery of the price control should be encouraged to provide ongoing challenge as well as providing continuity to the next price control period.
OVQ2	Do you agree with our proposed position on the Environmental Action Plan and Annual Environmental Report ODI-R for RIIO-3?	Agree	SGN agrees with Ofgem's consultation position to have an ODI-R and Licence Obligation for the Environmental Action Plan and Annual Environmental Report.
OVQ3	Do you agree with our consultation position to create a new common mechanistic PCD for ZEV and associated infrastructure costs?	Agree	We agree with the proposal to create a new common mechanistic PCD for zero-emission vehicles (ZEVs) and their associated infrastructure cost. We agree with the proposal of establishing a common incremental cost compared to the internal combustion engine (ICE) to maintain the flexibility in investing in ICE vehicles are not appropriate for those circumstances. When establishing PCD we recommend that the lease should be considered on the basis of a 5 year period, and to avoid distortions with purchase decisions, and the formula should adjust for shorter lease periods to avoid multiple payments. We have provided the information requested in the response to the question.
OVQ4	Do you agree with our proposed approach to measuring Baseline Network Risk Outputs and our application of the NARM mechanism?	Agree	We agree with the use of long-term risk measure as Baseline Network Risk Output (BNRO) for GDNs in GD3. The further development work carried out by GDNs supports the long-term risk assessment. We request that Ofgem rapidly reviews the methodology to setting the Unit Cost of Risk to avoid late-stage or ex-post adjustments.
OVQ5	Do you agree with our proposed approaches to calculating the funding adjustments and to the application of penalties?	Strongly Disagree	We do not support the proposed NARM Funding Adjustment and Penalty Mechanism, as it introduces uncertainty, deviates from the original intent to avoid ex-post assessment and fails to address concerns previously raised. The lack of clear selection and assessment criteria for Clearly Identifiable assets creates regulatory risk, investment uncertainty, and subjectivity in funding adjustment. We believe a robust, transparent funding framework is needed to align with asset management principles and ensure consistent, fair recognition of network risk management.
OVQ6	Do you agree with our proposed approaches to improving the NARM framework?	Partially Agree	We support Ofgem's aim to enhance the NARM framework and note that the existing GDN Common Methodology already provides a robust, well-documented approach with appropriate guidance on asset condition data. However, we have concerns over the practicality of a fully consistent Engineering Guidance Document given variations in

Overview Question Responses (OVQ)

#	Question	Agree / disagree	Summary of Response
			<p>surveying techniques, inspection regimes, and legacy systems across networks.</p> <p>While we support Ofgem's proposal to establish an Information Gathering Plan, the proposed timelines are too short to produce high-quality, collaborative outputs. We recommend extending the schedule and providing clearer guidance on the structure and content of these documents.</p>
OVQ7	Do you agree with our proposal for the physical security PCD?	Agree	SGN agrees with Ofgem's proposal for the Physical Security PCD, on the basis that efficient baseline funding is maintained for sites that remain on the DESNZ Critical National Infrastructure (CNI) list. We support the principles of targeted funding and appropriate return of unspent allowances where outputs are not delivered.
OVQ8	Do you agree with our approach taken to review of the Climate Resilience strategies?	Agree	SGN is already impacted by climate related risks and strongly agree that network companies need to consider these risks and impacts and take appropriate steps for mitigation and adaptation, to ensure a resilient network for customers and communities.
OVQ9	Do you agree with our views on the Workforce Resilience Strategies?	Partially Agree	Agree in the context that Ofgem have acknowledged that Networks have met the requirements of SSMD. However, Workforce and Supply Chain Resilience strategy document was compiled to support the rest of our business plan in terms of key areas of risk and to support our workloads and allowance request. There is a risk that underfunding of allowances will undermine our workforce resilience and our ability to retain and attract critical resource required to deliver our workloads.
OVQ10	Do you agree with our views on the Supply Chain Resilience Strategies?	Partially Agree	<p>Agree in the context that Ofgem have acknowledged that they have met the requirements of SSMD, however this document was compiled to support the rest of our business plan in terms of key areas of concern and to support our workloads and allowance request.</p> <p>The focus on the SSMD, and now the DD, is firmly on ET and challenges around procurement of long-lead items (materials and components). This overlooks challenges around of the Contract Labour supply chain, particularly in areas of the south of England.</p>
OVQ11	Do you agree with the equal weightings applied per criteria/rating for the 'Clarity scorecard' and the 'Business Plan Commitments scorecard' for the Stage C assessment?	n/a	We agree with the proposed weightings. However, we disagree with their application. The BPI results in disproportionate, inconsistent, poorly targeted decisions around the application of Stage C which Ofgem must address.
OVQ12	Do you agree with the weightings applied per outcome for each sector for use in the Stage C - Business Plan commitments assessments?	n/a	We agree with the proposed weightings. However, we disagree with their application. Please note our concerns raised in OVQ 11 and SGNQ6 to SGNQ8 regarding its application.

Overview Question Responses (OVQ)

#	Question	Agree / disagree	Summary of Response
OVQ13	Do you agree with the use of a default materiality threshold and its level?	Disagree	We disagree with the proposed approach as the materiality threshold is set at a level that exposes networks to additional risk of costs not being recoverable when they are outside of a company's control.
OVQ14	Do you agree with our proposed amendments to the CAM for RIIO-3?	Agree	SGN agree with Ofgem's proposal to retain the Whole Systems Co-ordinated Adjustment Mechanism (CAM) Reopener as well as the proposed amendments.
OVQ15	Do you agree with our proposed design of the NZARD UIOLI?	Partially agree	SGN broadly supports Ofgem's approach to the Net Zero and Re-opener Development ("NZARD") UIOLI allowance, we recognise the decision taken within the draft determination to maintain a maximum spend per project of £2m, and the award of an NZARD allowance of £13.45 million. We have three points regarding the proposed design. These are (i) projects between the UIOLI and PCD thresholds, (ii) the scope and (iii) funding expectations, and are described in full within the response.
OVQ16	Do you agree with our proposed design of the NZASP re-opener?	Agree	SGN agree aside from 2 areas: NZASP should include greening the gas, and the scope should be widened to include Local government and LAEP.
OVQ17	Do you agree with our design proposal for the resilience re-opener?	Agree	SGN agree with Ofgem's proposed approach to the resilience reopener, covering both emerging challenges and changes to existing resilience arrangements during the price control period.
OVQ18	Do you agree with our proposed approach to RPEs?	Agree	We agree with the approach to RPEs and have provided specific points on their calibration. Key points of consideration are appropriately defining the anchor point from which within control true-ups are then applied and their application to reopeners which have extended delivery dates.
OVQ19	Do you agree with our proposed approach to ongoing efficiency?	Strongly disagree	We disagree with the proposed approach to ongoing efficiency the basis of the analysis undertaken in the draft determination appears to be focused on supporting not changing an existing theory rather than an assessment of the evidence. We therefore request that ongoing efficiency is restated to 0.5% per annum as supported by networks in their business plan.
OVQ20	Do you agree with our proposed NIA funding levels?	Strongly disagree	SGN disagrees with the allocated funding and requests the reinstatement of £14.55m in NIA funding, and a reconsideration of the business plan incentive application. More detailed is set out in SGNQ17.
OVQ21	Do you agree with our approach to the future of gas-related workstreams?	Strongly disagree	SGN disagrees with the decision to fund further enabling work for hydrogen blending. This funding is necessary to maintain optionality of decarbonisation pathway.
OVQ22	Do you agree that £2.5m of additional NIA should be used to provide enhanced advisory services for innovators at the early stages of innovation development?	Partially agree	SGN supports the NIA mechanism funding this activity but recommend transparent network-led governance to align on system needs, avoid duplication and better support SMEs entering the SIF and NIA pipelines.

Overview Question Responses (OVQ)

#	Question	Agree / disagree	Summary of Response
OVQ23	Do you agree with our approach to improving oversight and reporting of the NIA?	Partially agree	SGN supports the goal to strengthen oversight, but Ofgem will need to define what it expects in terms of reporting and expected format.
OVQ24	Do you agree with our proposals to allocate £500m for SIF funding?	Agree	SGN supports this funding ceiling as sufficient with the £500m aligning well with the current innovation pipeline maturity.
OVQ25	Do you agree with our proposals to introduce a 'Programmatic Approach' to the SIF?	Agree	SGN agrees and believes a more programmatic approach will enable more system wide innovation and expects the opportunity to lead major innovation programmes.
OVQ26	Do you agree with our proposals to introduce a £50m deployment fund, utilising £50m from the total £500m SIF allocation?	Agree	SGN agrees and supports a dedicated ringfenced deployment fund but believes it should still preserve funding for early-stage Discovery, Alpha and Beta phases.
OVQ27	Do you agree that the deployment fund should also be open to innovation projects that haven't been funded through NIA, NIC or SIF?	Agree	SGN agrees and supports additional access subject to projects meeting a strict criterion for replicability, learning, consumer value and strategic alignment.
OVQ28	Do you agree with our proposals to reverse the SSMD position of removing the Discovery phase from SIF?	Agree	SGN agrees and supports the reinstatement of the Discovery phase within the SIF, but not at the expense of the £1.25m reduction to the front-end innovation allowance currently allocated under 'Today's Network' section of the NIA.
OVQ29	Do you agree with our proposals to retain the core aspects of the SIF for RIIO-3?	Agree	SGN agrees and supports retaining the core structure but recommends key process improvements to enhance efficiency and participation.
OVQ30	Do you agree with our proposals for a more flexible approach to contribution rates to fund SIF projects?	Agree	SGN agrees and supports removing contribution requirements for SIF discovery phases and Alpha phases to boost SME participation, with contribution only applying at deployment.
OVQ31	Do you agree with updating the SIF eligibility criteria and assessment process?	Agree	SGN agrees and supports this update emphasising the need for clear transparent standards, recommending a collaborative approach with Innovate UK and other GDN's.
OVQ32	Do you agree with our proposal to establish a direct pathway for transformative projects to seek Ofgem's support for funding?	Agree	SGN agrees and supports a direct pathway so long as several conditions are met, and the pathway complements and strengthens the existing innovation ecosystem.
OVQ33	Do you agree on the need to clarify roles and responsibilities within the innovation ecosystem, and	Agree	SGN supports the need to clarify roles and responsibilities to drive collaboration and prevent duplication and recommends formally defining the role of networks and others in the innovation ecosystem.

Overview Question Responses (OVQ)

#	Question	Agree / disagree	Summary of Response
	the factors that we should consider?		
OVQ34	Do you agree with our approach to improving reporting of deployed SIF projects and lessons learned post-funding?	Agree	SGN agrees that better reporting is required to disseminate learnings effectively and offers 3 recommendations to Ofgem.
OVQ35	Do you agree with our proposals for the Cyber Resilience re-opener?	Partially Agree	SGN agrees with the proposals for the cyber reopener being maintained in GD3, however, we disagree with the proposed scheduling of the Cyber re-opener and, instead, proposes that this should occur in 2028 and not the Ofgem proposal of 2029.
OVQ36	Do you agree with our position of not changing the Digitalisation licence condition?	Disagree	SGN disagrees with the position on the digitalisation licence condition. This is due to the use of the term 'best endeavours' which is inappropriate from a licencing perspective, this needs to be changed to 'must use reasonable endeavours'.
OVQ37	Do you agree with our proposed approach to the DSI licence condition?	Disagree	SGN disagrees that a further licence obligation is necessary, and we believe that this can be adequately covered under the existing digitalisation licence condition and the proposed regional energy strategic plan licence condition.
OVQ38	Do you agree with our proposed design of the Digitalisation re-opener?	Partially Agree	SGN agrees with Ofgem's proposal for a Digitalisation re-opener, however given the uncertainties relating to the evolving and maturing digital landscape we recommend that it is better to have two reopener windows in 2027 and 2029.

Chapter 2 Introduction

2.1 Stakeholder engagement and consumer voice

OVQ1. We would welcome any views on the enduring role of the ISGs during RIIO-3 and for future price controls.

- 1 We support an enduring role for the ISGs through GD3.
- 2 SGN maintained a close working relationship with our ISG throughout GD2 and took their advice to commence early planning on stakeholder engagement and customer research. They were regularly updated on progress on how we were delivering against our targets, reopener submissions, operational challenges and operational achievements that we were experiencing.
- 3 Working with the ISG, we formulated an extensive deliberative research programme; we identified key priorities which then provided focus for the investment proposals we put into our business plan. These include maintaining safe, reliable and resilient supplies to Multi Occupancy Buildings, decarbonising Statutory Independent Undertakings and supporting the increased use of biomethane and working with industrial and commercial customers and stakeholders such as NESO on the development of the future energy system and RESPs.
- 4 In building the business plan, the ISG provided constructive challenge at all times, improving the quality of the research and insights which we gathered. This was assisted by a level of continuity in both the ISG and its members between the GD2 business planning process and the GD3 business planning process.
- 5 Accordingly, we believe that continuity of the ISG is important, and their active role during the price control period supports a better level of understanding from which to challenge the business plan. We believe a level of change in membership is helpful to provide new perspectives, whilst maintaining continuity.

Chapter 3 Scene setting & strategic design

- 6 Whilst there are no direct questions in Chapter 3, it relates to important considerations that impact the expectations of RIIO-GD3 and beyond. In our Overall Response¹ we set out four fundamental actions necessary to ensure safe and secure gas supplies and that investors are able to achieve proposed returns. These actions are aligned to ours, and our customers', priorities, to ensure that we can deliver to our licence obligations and the outcomes expected by customers. Our four fundamental actions are;
- (a) **Action 1: Restore all safety-critical workload** – the deterioration rate of assets outside the mandatory replacement programmes is increasing faster than the rate of replacement, heightening the risk to the public, the risk the breach of licence obligations. All safety-critical workload must be restored.
- (b) **Action 2: Correct the suite of errors in Repex unit costs:**
- 2a: Address the gap to market costs in Repex allowances – there is a clearly identifiable gap between the allowances and the market rates required to efficiently deliver. We have set out two adjustments (i) recognising the regional difference between unavoidable contractor labour rates by introducing a regional contractor premium of 6%, and (ii) recognising that complexity has a high regional aspect that impacts productivity in the south of England and introduce a suitable proxy for Repex complexity.
 - 2b: Recognise the changing requirement to maintain safety in multiple occupancy buildings (MOBs) – the cost drivers for determining an efficient cost are poorly represented in the cost assessment methodology. We propose to adjust HSE reopener mechanism to volume and costs after the first two years whilst improving data collection in the RRP for key cost drivers.
 - 2c: Recognition of an efficiently forecast Business Plans – we have identified two errors in the cost assessment process that must be corrected. The corrections required are to normalise the assumptions between networks for (i) the forecast lay to decommissioning banding mix and (ii) the forecast abandonment ratio.
- (c) **Action 3: Correct allowances to reflect operational reality:**
- 3a: Apply an appropriate driver to determine repair efficiency – the current driver for repair costs is impacted by internal company policy. It is important that drivers should be exogenous we therefore propose that 'km of metallic main', which is a robust exogenous driver with strong engineering justification, should be adopted.
 - 3b: Recognise appropriate costs associated with regional workload and streetwork costs – the appropriate costs of working in each region must be appropriately determined. Specifically, these are to (i) recognise the geographical difference in workload mix used in the composite scale variable, and (ii) capture an accurate reflection of actual streetwork costs rather than the proposed 10 year average.
 - 3c: Reflect an appropriate ongoing efficiency requirement – we need to align the ongoing efficiency expectations of gas networks with the rest of the economy. As we suggested in our Business Plan 0.5% is an ambitious adjustment. This is a view shared by all GDNs.
- (d) **Action 4: Address manifest inconsistencies in the risk and return package:**
- 4a: Providing an appropriate allowed return on capital - the return on capital set out in the Draft Determination is insufficient to reflect the costs of raising capital and provide an appropriate return. This needs to be corrected by (i) increasing the cost of debt allowance by 46bps to 5.53%, (ii) an assumed dividend yield in excess of 6% reflecting a business with no prospect of any material RAV growth in the future and (iii) implementing a cost of equity 80bps higher to 6.84%, reflecting current market conditions.
 - 4b: Providing a package with an appropriate balance of risk to enable an efficient SGN licensee to achieve that allowed return. – our analysis of workload adjusted risk under the Draft Determination².
- 7 For each of the actions that have been set out above we have presented solutions and the methodological changes that need to be undertaken to address them. In addition to these actions, we draw attention to the

¹ SGN-GD3-DD-OD - SGN Draft Determination Overall Response

² KPMG RIIO GD3 Draft Determinations – Risk analysis for a notional GDN August 2025 (submitted with this response)

Overview Question Responses (OVQ)

following opportunities to improve the next price control over and above the proposals set out in the draft determination.

- (i) **Managing the uncertain future of Gas.** We agree with the draft determination³ that there is significant uncertainty surrounding the future of gas, and we are supportive of the efforts made by Ofgem to work with the government to ensure that the transition away from natural gas to deliver the objectives of net-zero is fair and at the lowest possible cost. As we set out in our business plan Government and Ofgem need to set out a holistic approach to deliver these objectives and to support investment⁴. SGN support this approach and will look to assist. Whilst this approach is being developed, it is very important that investors have assurance that the investments are confident. We need a clear statement to investors that: ***‘the investment they may make today, over the coming years and the costs they will incur in the future to maintain the safe and reliable operation of the network will be fully recoverable’.***
- (ii) **Maintaining Net Zero Optionality.** We are very concerned that there is a significant gap that has developed between the role of Ofgem and the role of DESNZ on the development of hydrogen blending and the pre-work necessary to support the hydrogen transport business model. A significant body of knowledge has been built over the last two price controls, and if that collective knowledge disperses, then it will be difficult and time-consuming to rebuild. There is a risk that many of the challenges that electricity transmission is currently experiencing could be replicated in the gas networks arising from a hiatus in hydrogen-related work. We recognise that it is challenging for Ofgem to provide funding commitments without clear policy guidance, and ***we encourage Ofgem to provide greater flexibility in the use of innovation, NZARD UIOLI and NAZSP reopeners to provide for hydrogen-related pre-development work.***
- (iii) **Reinstating innovation funding.** We strongly disagree with the proposed funding levels and requests the reinstatement of £14.55m in NIA funding, as well as a reconsideration of the business plan incentive score. Our justification for the reinstatement of the NIA funding is found in Sections 1 (workstream adjustments) & 2 (Business plan allocation score). Our innovation programme is aligned to customer priorities and delivers customer benefits whilst maintaining optionality at a time of real uncertainty. **We therefore request that NIA funding of £29.65m is granted and awarded as part of the final determination.**
- (iv) **Advanced Leakage Detection.** We agree with Ofgem’s decision to fund its ALD programme to undertake safety driven pipe condition monitoring through the baseline, and to separately assess DPLA, which is currently not proven, through the NZASP Re-Opener. However, our agreement is subject to Ofgem addressing specific technical issues that we have identified in the DD, which we present within our response to GDQ2⁵. We have identified two key issues that will have an impact on value for customer and how we implement the technology in line with HSE requirements. **These relate to: (i) a potential technical issue with the DD calculation of ALD funding in SGN’s baseline totex, and (ii) the need to use the most reliable evidence to determine the likely costs of ALD.**
- (v) **Maintaining a sustainable skills base.** As we have noted, gas networks do not fail safe. The ongoing safety of the network needs to be maintained through a highly technically skilled and specialised workforce that is supported by a robust contractor base. Funding needs to be sufficient to maintain this skills base over the long-term, to bring new talent into the sector and to respond to changes in working practices that recognise the detrimental impact that operational workforce fatigue on safety. Sector uncertainty makes our ability to attract and retain critical talent more challenging. Ofgem have acknowledged our work in GD2 through the Workforce and Supply Chain Resilience strategy (OVQ9 and OVQ10). **Funding must be sufficient to maintain a resilient workforce and we need commitment to fund green gas technologies in order to maintain future skills and workforce resilience for Gas Distribution Networks beyond GD3.**
- (vi) **Setting outputs and incentives.** The price control is becoming increasingly skewed to managing downside incentive risk many of which are becoming poorly calibrated to the way in which the environment we are operating in is changing, increasingly duplicative and overlapping. There is a particular concern for example with penalty incentives of mean unplanned interruptions incentive (GDQ17) and repair standards (GDQ3) and the fact that both are time-based incentives that do not recognise the regional impacts on time to deliver work (productivity) of operating in the south of the UK compared to the North. These also overlap

³ RIIO-3 Draft Determinations Overview Document, pg. 26, para 2.21

⁴ SGN GD3 Business Plan, Dec 2024, pg. 12

⁵ SGN-GD3-DD-GD - SGN Draft Determination GD Response

with strong failure to supply gas GSOP penalties. **We need incentives to be appropriately balanced so that networks have a genuine opportunity to avoid a penalty unless there is clear underperformance.**

- (vii) **Baseline totex and uncertainty.** We recognise that there is a preference to limit the number a scope of reopeners; however, we also need to recognise that there are significant uncertainties in RIIO-GD3 that differ from those in RIIO-GD2 that need to be addressed. As set out in our response to question on the HSE reopener (GDQ24) there are specific uncertainties in the cost of delivering MOB's due to uncertainties in the implementation of recent legislation. Given the step change in workload that is required in GD3 and to manage these risks more appropriately, we have proposed a stage approach to the reopener that provides funding for the first two years, and then an opportunity to resubmit for additional workload and funding in the reopener window. **As set out in our overview document⁶ the HSE reopener must be adjusted specifically to consider cost uncertainty for multi-occupancy buildings (MOBs).**
- (viii) **Totex incentive Mechanism.** Our balance of risk report provides a detailed assessment of the risk of the package as it stands and shows there is a significant downside risk directly attributable to totex over expenditure. It is not appropriate that investors should bear this level of risk, and this must be addressed at source. Given the risk exists we think either the totex incentive mechanism or the revenue adjustment mechanism (RAMs) should be adjusted to protect both customer and investor. Our proposals are set out in our response to FQ27. **The RAMs thresholds should be recalibrated as an alternative to adjusting the totex incentive mechanism to provide the right incentive properties, and to protect against extreme upside and downside scenarios.**
- (ix) **Business Plan Incentive.** As set out in our overview document,⁷ it is evident that some networks have embedded inefficiencies in the cost assessment process, which distorts the validity of a business plan incentive. This undermines its effectiveness as a tool to achieve objectives such as overcoming information asymmetries or motivating high quality ambitious plans that represent value for money⁸. Similar concerns around the use of such incentives were correctly raised in the Independent Commission on Water⁹ who recommended that Ofwat's Quality and Ambition Assessment (QAA) should be withdrawn and noted that there are fundamental limits on the precision and accuracy of benchmarking¹⁰, which forms the majority of the incentive value. **As set out in our response to SGNQ7 and SGNQ8 we have identified significant flaws in the BPI. In consideration of the commission's recommendation and evidence of embedded inefficiencies from other networks, the BPI methodology and its application should be adjusted accordingly.**

Chapter 4 Outputs and incentives

4.1 Cross-sectoral outputs

4.1.1 Environmental Action Plan and Annual Environment Report ODI-R

OVQ2. Do you agree with our proposed position on the Environmental Action Plan and Annual Environmental Report ODI-R for RIIO-3?

- 8 SGN in generally agrees with the proposed consultation position. It is essential to report and follow up on progress towards targets and commitments.
- 9 In the Annual Environmental Report, Ofgem is proposing a specific commentary section and a KPI section, both with minimum requirements to be outlined in the RIIO-3 Environmental Reporting Guidance. This guidance is not yet available and to be consulted on at a later stage. It is crucial to have sight of said reporting guidance sooner rather than later; in case this requires any changes in existing reporting processes and/ or the addition of new KPIs.
- 10 We recommend that Ofgem use clear and well defined KPIs to ensure consistency in reporting across networks. We would also argue that less is more, and by focusing on key relevant and material KPIs relating directly to targets, stakeholders would get the most out of networks' Annual Environmental Reports.

⁶ SGN-GD3-DD-OD, Section 3.2, Aug 25

⁷ SGN-GD3-DD-OD, Section 3.3, Aug 25

⁸ RIIO-3 Draft Determinations Overview

⁹ Independent Water Commission, Recommendation 21: "The regulator should withdraw the QAA", pg. 209, July 2025

¹⁰ Independent Water Commission, July 2025, para 388, pg. 183

- 11 SGN welcome annual monitoring of Annual Environmental Reports by Ofgem, to ensure consistency and enable best practice.

4.1.2 Operational Transport Emissions Reduction PCD

OVQ3. Do you agree with our consultation position to create a new common mechanistic PCD for ZEV and associated infrastructure costs?

- 12 We agree with the proposal to create a new common mechanistic PCD for zero-emission vehicles (ZEVs) and their associated infrastructure cost. We agree with the proposal of establishing a common incremental cost compared to the internal combustion engine (ICE) to maintain the flexibility in investing in ICE vehicles are not appropriate for those circumstances and we have provided the information requested within the draft determination below.
- 13 When considering the design of the PCD, careful consideration needs to be applied to the design of the mechanism to ensure that there is an appropriate distinction between leasing and purchasing an ECV. We note that this is an area where some networks have diverged in their interpretation of the RIIO-GD2 with some networks focusing on leasing vehicles rather than purchasing and others keeping to the licence as written and focusing on purchasing.
- 14 We note that both strategies are valid and achieve the same environmental objective, however, to ensure comparability between lease and purchase there should be a minimum lease term of 5 years, or if a short lease term is utilised renewed leases should not be eligible for the same PCD income. This is to avoid the extreme example where a ZEV 1-yr lease renewal strategy could earn 5 times the PCD revenue of a ZEV purchase.

ZEV strategy

- 15 Our vehicle strategy prioritises the replacement of small vans and 4x4s, reflecting operational suitability and current market readiness. Vehicles will be leased over a 5-year term to retain flexibility and allow adoption of improving vehicle technologies. To support this transition, 75 standard 22kW AC chargers will be installed in main depots across Scotland and Southern England, with additional provision for rapid DC chargers in larger depots where feasible. Home charging is being explored for suitable properties, supported by smart charging solutions and cost recovery directly to the business.
- 16 The estimated lease cost of vehicles over GD3 is £9.3 million, with charging infrastructure projected at £1.99 million. These figures may increase due to potential Distribution Network Operator (DNO) upgrade requirements to support depot charging capacity. Our replacement priorities are;
- Small Vans: 247 vehicles targeted for replacement during GD3 using the Ford E-Courier or similar.
 - Double-Cab 4x4s: 73 ICE vehicles to be replaced with ZEVs or hybrid equivalents (e.g. Ford Ranger PHEV, Toyota Hilux MHEV).
 - Medium and Large Vans: Replacements will continue using ICE models where ZEVs remain operationally unviable, particularly for 24/7 emergency response units.
- 17 Our strategy prioritises the replacement of small vans and 4x4s, reflecting operational suitability and current market readiness. Vehicles could be leased, contract purchase or hired over a 4 or 5-year term to retain flexibility and allow adoption of improving vehicle technologies. We will also trial suitable ZEV vans that can match our current operating model to see how they cope with the challenges of a 24/7 emergency response operation.
- 18 To support this transition, 75 standard 22kW AC chargers will be installed in main depots across Scotland and Southern England, with additional provision for rapid DC chargers in larger depots where feasible. We also propose home charging for suitable properties, supported by smart charging solutions and cost recovery directly to the business. The estimated lease cost of vehicles over GD3 is £9.3 million, with charging infrastructure (inc. home charging) projected at £1.99 million. These figures may increase due to potential Distribution Network Operator (DNO) upgrade requirements to support depot charging capacity.
- 19 The draft determination¹¹ has requested specific information to 5 questions set out below;
- (i) Breakdown of small, medium and large panel van to be replaced or added in GD3 by type, model and weight.

¹¹ RIIO-3 Draft Determinations Overview Document, para 4.24, pg. 39.

Overview Question Responses (OVQ)

- (ii) Expected number of each ZEV type that will be purchased or leased (reported separately) on an annual basis.
- (iii) Unit Cost of all vehicles in the above categorisations with a ZEV / ICE comparison on an annual basis
- (iv) Commentary on how the unit costs were derived including discounts and changes in costs from GD2.
- (v) Details of EV charging strategy and costs (including charger category breakdown)

20 These are answered in turn below.

(i) Breakdown of small, medium and large panel van to be replaced or added in GD3 by type, model and weight.

- 21 The operational context of the vehicles that we operate and the hence their propensity for replacement is set out below;
- Home-Start Model: All of our fleet operate on a home-start model, with engineers deploying directly from home to respond to emergencies or go direct to their first job. This increases reliance on public and home charging infrastructure and requires vehicles to be self-sufficient, including carrying tools and power systems.
 - 24/7 Response Requirements: Our medium and large vans are part of the 24/7 gas emergency response fleet, which places demands on vehicle availability, resilience, and power capacity (e.g. for lighting, tool charging, PTO equipment).
 - First Call Operatives (FCO's) mostly use our medium (High roof) size vans to attend emergency calls. FCO's also conduct meter replacement work. A smaller medium van (e.g. Ford Custom) is not suitable for this work as the engineer has to conduct tasks inside the vehicle hence the need for a larger volume high roof van. With the vehicle fully converted and loaded with spare parts and equipment the vehicle is close to its maximum GVW (3.5t). This size of vehicle would not be suitable to home charge due to its size/weight. For this reason, we propose to initiate a trial with 5-10% of FCO vans being replaced by EV equivalents. This would only be suitable for early adopters, who currently run across lower mileage and have facilities to park and charge their vehicles.
 - Teams (Repair) vehicles are heavily converted with under chassis mounted air compressor as well as a generator powered via the vehicle's driveshaft. This requires the vehicle have rear wheel drive. All ZEVs are front wheel drive and would not be able to accommodate the level of conversion required. Repair vehicles also tow on a regular basis, 3.5t ZEVs currently are not able tow the weight required by our Repair vehicles; +2,500kg.
 - Support vehicles attend emergencies as well as supporting other frontline operational activities. They are equipped with a tailgate to support loading/unloading of equipment. The support vehicles regularly tow equipment to/from sites. Current 3.5t ZEV's available do not offer the flexibility with regards to towing or to have a tailgate fitted.
 - For large vans, BEV alternatives (e.g. 4.25t derogated models) are available. While technically compliant under UK government weight exemptions, they require tachograph installation and subject drivers to operator licensing and testing requirements, which present significant operational and cost challenges for our current deployment model. As such, electrification of this segment has been deferred pending further market development.
- 22 Table 1 below presents indicative models and weight classes for each ZEV category. These are for reference only and final vehicle selection will be subject to a formal tender process.

Table 1: Vehicle type, model, and weight classes by ZEV category

Category	Vehicle Type	Example Model (Ref Only)	GVW	Operational Role
Small Van	Panel Van	Ford E-Courier	2.1t	Support roles

Overview Question Responses (OVQ)

Medium Van (High roof)	Panel Van	Ford e Transit / Vauxhall Movano	3.0–3.5t	Emergency response / meter work.
Large Van	Panel Van	Vauxhall Movano / Ford e Transit	3.5t	Emergency response / towing, onboard power
Support Vehicle	Chassis/Cab w/dropside body/Tailgate	Vauxhall Movano / Ford e Transit	3.5t	Support Vehicle / Emergency support / towing
4x4 Pickup	Double-Cab Pickup	Ranger PHEV / Hilux MHEV	3.2–3.5t	Emergency response - access / trailer towing

Source: SGN Data

23 We have assessed the suitability of converting our fleet based on vehicle type, mileage, operational requirements outlined above, and available technology. The following vehicles have been identified as potentially suitable to replace with electric vehicles (vehicle numbers within Table 2 and Table 3 summarises costs):

- Small Vans: 247 vehicles targeted for replacement during GD3 using the Ford E-Courier or similar. Used by customer teams, IT, surveyors, occupational health and other support services. More scope to plan charging activities, and low vehicle conversion or power requirements.
- Double-Cab 4x4s: 23 ICE vehicles to be replaced with ZEVs or hybrid equivalents (e.g. Ford Ranger PHEV, Toyota Hilux MHEV).
- Medium and Large Vans: We will conduct a trial for medium FCO vans, with between 5-10% targeted to be replaced with ZEVs, or approximately 40 vans. We will approach early adopters with suitable charging arrangements at home, who complete relatively low mileage. All other replacements will continue using ICE models where ZEVs remain operationally unviable, particularly for 24/7 emergency response units and vehicles with significant power output.

Table 2: Number of electric vehicles and chargers for conversion

Number of vehicles/chargers	26/27	27/28	28/29	29/30	30/31	Total
FCO Medium vans (trial)	10	30	0	0	0	40
Small vans	9	48	124	66	0	247
4x4s	0	25	16	16	16	73
Depot chargers (AC)	25	35	15	0	0	75
Depot chargers (DC)	5	0	0	0	0	5
At home chargers	7	29	46	25	2	109

Source: SGN Data

Table 3: Summary of costs

Cost (k)	26/27	27/28	28/29	29/30	30/31	Total
FCO Medium vans	£117	£468	£468	£468	£468	£1,987
Small vans	£68	£428	£1,358	£1,853	£1,853	£5,558
4x4s	£0	£225	£369	£513	£657	£1,764
Depot chargers (AC, DC and enabling)	£769	£761	£326	£0	£0	£1,856

Overview Question Responses (OVQ)

At home chargers	£8	£37	£58	£32	£3	£137
Gross cost of EV conversion	£961	£1,918	£2,578	£2,865	£2,980	£11,302

Source: SGN Data

- 24 Gross costs are considered in isolation of the existing GD3 submission, which assumes these vehicles are replaced with ICE equivalents.
- 25 Replacement volumes for each category will be based on the annual vehicle replacement plan and aligned to operational viability, infrastructure readiness, and supply chain availability. Table 4 below provides the planned replacement throughout GD3.

Table 4: Planned Replacement throughout GD3

Category	ZEV/ICE	26/27	27/28	28/29	29/30	30/31
Small Van	ZEV	9	48	124	66	0
	ICE	0	0	0	0	0
Medium Van (High roof)	ZEV	10	30	0	0	0
	ICE	0	173	93	92	142
Large Van (High roof)	ZEV	0	0	0	0	0
	ICE	319	100	116	194	185
Support Vehicle	ZEV	0	0	0	0	0
	ICE	38	0	27	8	31
4x4 Pickup	ZEV/Hybrid	0	25	16	16	16
	ICE	0	0	0	0	0

Source: SGN Data

(ii) Expected number of each ZEV type that will be purchased or leased (reported separately) on an annual basis.

Table 5: Unit costs by year and type (£/vehicle)

Category	Purchase / lease	26/27	27/28	28/29	29/30	30/31
Small Van	Purchase	0	0	0	0	0
	Lease	9	48	124	66	0
Medium Van (High roof)	Purchase	0	173	93	92	142
	Lease	10	30	0	0	0
Large Van	Purchase	319	100	116	194	185
	Lease	0	0	0	0	0
Support Vehicle	Purchase	38	0	27	8	31
	Lease	0	0	0	0	0
4x4 Pickup	Purchase	0	0	0	0	0
	Lease	0	25	16	16	16

Source: SGN Data

Overview Question Responses (OVQ)

(iii) Unit Cost of all vehicles in the above categorisations with a ZEV / ICE comparison on an annual basis**Table 6: Unit costs by year and type (£/vehicle)**

Category	ZEV/ICE	26/27	27/28	28/29	29/30	30/31
Small Van	ZEV	£7.5	£7.5	£7.5	£7.5	£7.5
	ICE	£22.5	£22.5	£22.5	£22.5	£22.5
Medium Van (High roof)	ZEV	£11.7	£11.7	£11.7	£11.7	£11.7
	ICE	£37.4	£37.4	£37.4	£37.4	£37.4
Large Van	ZEV	£0.0	£0.0	£0.0	£0.0	£0.0
	ICE	£48.5	£48.5	£48.5	£48.5	£48.5
Support Vehicle	ZEV	£0.0	£0.0	£0.0	£0.0	£0.0
	ICE	£43.6	£43.6	£43.6	£43.6	£43.6
4x4 Pickup	ZEV	£9.0	£9.0	£9.0	£9.0	£9.0
	ICE	£37.6	£37.6	£37.6	£37.6	£37.6

Source: SGN Data

- 26 The estimated cost to lease the vehicles over the course of GD3 is £9.3m. Table 7 below splits the cost by year.

Table 7: Total cost by vehicle type and year

Type	ZEV / Hybrid	26/27	27/28	28/29	29/30	30/31	GD3
Small Van	ZEV	£0.1m	£0.4m	£1.4m	£1.9m	£1.9m	£5.6m
Medium Van (High roof)	ZEV	£0.1M	£0.5M	£0.5M	£0.5M	£0.5M	£2.0m
Large Van	ZEV	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m
Support Vehicle	ZEV	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m
4x4 Pickup	ZEV/Hybrid	£0.0m	£0.2m	£0.4m	£0.5m	£0.7m	£1.8m
	Total	£0.2m	£1.1m	£2.2m	£2.8m	£3.0m	£9.3m

Source: SGN Data

(iv) Commentary on how the unit costs were derived, including discounts and changes in costs from GD2.

- 27 The tables below set out a comparison of ZEVs and ICE equivalents for estimated annual lease costs (4-5 year term), the costs of charging infrastructure, the cost of DNO grid upgrades and the cost of home charge installations.
- 28 Tables 8, 9, 10 and 11 below set out a comparison of ZEVs and ICE equivalents for estimated annual lease costs (5 year term), the costs of charging infrastructure, the cost of DNO grid upgrades and the cost of home charge installations. The lease cost estimates for small and medium vans are understood to have introductory supplier discounts built into the indicative pricing, although the precise level of discount is not known and no formal tender process has been undertaken. The indicative pricing for 4x4 vehicles has instead been derived from a market search. As such, the figures provide a useful comparative view but may not fully represent the pricing outcomes achievable through a competitive procurement exercise.

Table 8: Comparison of Zero Emission Vehicle and Internal Combustion Engine Costs

Category	ZEV Example (Ref Only)	ZEV Est. Lease (p.a.)	ICE Est. Lease (p.a.)	Conversion Cost Included	Notes
Small Van	Ford E-Courier	£7,000–£7,500	£5,500–£6,000	£5,000	Racking, electrics, livery

Overview Question Responses (OVQ)

Medium Van (High roof)	Ford Transit	£10,500–£11,500	£8,500–£9,500	£10,000	Tool charging, racking, internal fitout
Large Van	N/A	N/A	£12,000–£13,500	N/A	Electrification not viable – awaiting suitable BEV development
Support Vehicle w/tailgate	N/A	N/A	£7,900 - £8,900	£14,000	Electrification not viable – awaiting suitable BEV development
Double-Cab 4x4	Ranger PHEV / Hilux	£8,000–£9,000	£7,000–£8,000	£9,500	Tow bar, beacons, invertor, racking

Assumptions used in the above table: Based on a 5-year operating lease/contract purchase, Full-service maintenance included in lease pricing; conversion costs reflect operational fit-out costs based on current ICE spec requirements. Conversion costs are built into the ZEV lease estimates to reflect vehicles being delivered ready for operational deployment.

Data Source: Market search as well as a recent funding comparison conducted by one of our fleet suppliers.

Table 9: Charging infrastructure

Component	Unit Cost (£)	Source
22kW AC Chargers (Dual)	£3,000	Market search
AC Installation & Groundworks	£12,500	Internal bids
50-100kW DC chargers	£28,000 – £40,000	
DC Installation & Groundworks	£7,000 – £15,000	

Source: UKPN, Northern PowerGrid guidance; Energy Saving Trust – “EV Infrastructure Guide,” 2023

Table 10: DNO grid upgrades

Upgrade Type	Estimated Range (£)	Notes
Standard Depot (AC)	£8,000–£18,000/site	Based on 100–150kW upgrade for 6–10 chargers
DC Rapid Charger Site	£20,000–£45,000/site	May include LV to HV upgrades or substation reinforcement

Source: UKPN, Northern PowerGrid guidance; Energy Saving Trust – “EV Infrastructure Guide,” 2023

Table 11: Home EV ChargePoint Installation

Provider / Brand	Charger Model	Estimated Total Cost (inc. VAT)	Notes
Octopus / Ohme	Ohme Home Pro or ePod	£899 – £1,100	Standard package includes smart charger and basic install. Backend billing typically included.
Heatable / Hypervolt	Hypervolt Home 3 Pro	£1,050 – £1,500	Premium UK-made charger with backend platform. Higher range reflects extended install options.
Pod Point	Pod Point Solo 3 or Twin	£849 – £1,200	Lower base price; backend business billing may push cost toward upper range.

(v) Details of EV charging strategy and costs (including charger category breakdown)

- 29 To accommodate a pivot to electric vehicles, we will need to upgrade the infrastructure at our depots and make provision for our staff to install chargers at home, in addition to utilising the public charging network. Increasing

Overview Question Responses (OVQ)

options for charging locations is key to ensuring our pivot to electric vehicles remains viable. Our EV charging strategy is divided into depot charging and home charging.

- 30 We plan to install up to 75 x 22kW AC chargers across major depots during GD3, subject to DNO capacity. We are also reviewing the viability to install 50–100kW rapid DC chargers at 5 high-utilisation depots to support emergency redeployments, or late or unplanned visits. Rapid charging does come with uncertain cost implications, with significant increases related to DNO capacity requirements unclear until site visits are conducted at depots and local substations to determine potential capacity increases. The costs are set out in the table below.

Table 12: Depot Charging

	Quantity	Unit Cost (£)	Total Cost (£)	Source
22kW AC Chargers (Dual)	75	£3,000	£225,000	Market search
AC Installation & Groundworks	75	£12,500	£937,500	Internal bids
50-100kW DC chargers	5	£34,000	£170,000	
DC Installation & Groundworks	5	£11,000	£55,000	
DNO upgrade – assume required at 50% of sites	10	£30,000	£300,000	UKPN
Contingency (10%)	—	—	£168,700	Project risk allocation
Total (Estimate)	—	—	£1,856,200	—

Source: Charger hardware and installation costs are based on site visits to depots in 2024.

- 31 There is likely to be significant variability in the costs presented above, given the different site requirements. Specifically, the upgrades for charger installation may incur significant DNO reinforcement/upgrade costs, particularly for rapid charger installations and further work is required to assess the available power capacity of our depots. For the purpose of this submission, we have assumed 50% of our sites would require power upgrades to accommodate chargers.
- 32 determine potential capacity increases. The table on the right provides an indication of estimated costs however the final amount can significantly higher.
- 33 **Home Charging**
We are exploring the potential to support home charging where suitable, using smart charging points that enable electricity costs for charging company vehicles to be billed directly to the company. This approach would minimise inconvenience or financial impact on employees. In addition, all EV drivers will be issued with at least one charging card to enable access to the wider public charging network.
- 34 The indicative pricing table (below) provides indicative market pricing for the installation of home EV charge points using smart charging technology that supports direct-to-company electricity billing. These estimates reflect current offerings from three leading providers and include both hardware and standard installation. Costs may vary depending on site-specific requirements such as unit upgrades, cable run length, or additional safety devices.
- 35 However, home charging is not expected to be suitable for all employees. Based on recent studies and insights from other Gas Distribution Networks (GDNs), only around 35–45% of employees are likely to have access to off-street parking and sufficient electrical capacity to support safe and reliable home charging. This reinforces the importance of a balanced infrastructure strategy that also includes depot-based and public charging options to meet the full range of operational needs across the fleet.
- 36 Based on the information below we estimate the cost to install home charging points at £1,267 per unit and the total cost throughout GD3 to be £137.5k. The home charging table provides the workings based on 35% of our employees driving ZEV's will be able to home charge.

Table 13: Cost to install home charging points

Depot / Home charging estimate	26/27	27/28	28/29	29/30	30/31	GD3 Total
ZEV / Hybrid Vehicles	19	83	130	72	6	310
Home charging (uptake @ 35%)	7	29	46	25	2	109

Overview Question Responses (OVQ)

Home charging Cost (£k)	£8.4k	£36.8k	£57.6k	£31.9k	£2.7k	£137.5k
-------------------------	-------	--------	--------	--------	-------	---------

Source: SGN Data

4.1.3 Network Asset Risk Metric (NARM)

OVQ4. Do you agree with our proposed approach to measuring Baseline Network Risk Outputs and our application of the NARM mechanism?

- 37 We broadly agree with the proposed approach to measuring Baseline Network Risk Outputs (BNRO) and the application of the NARM mechanism. We support the move to long-term risk measures for GDNs, as the further development work undertaken by GDNs has strengthened the long-term risk modelling for GD3.
- 38 While we agree with adopting BNRO as a long-term risk measure, we would like to highlight that this change will also impact on the Unit Cost of Risk (UCR) setting.
- 39 The current UCR is set at network level; however, with the shift from single-year to long-term risk, it will be important to review the methodology and establish an appropriate level for GD3. We anticipate greater UCR variance across asset classes compared with the GD2 single-year approach. Undertaking an early assessment to determine a suitable UCR would help to minimise uncertainty and reduce the need for ex-post adjustments.
- 40 We agree with Ofgem that the final view of the BNRO for GD3 will be based on the final determination. This will require the agreed FD workload to be modelled within each company's NARM model.

OVQ5. Do you agree with our proposed approaches to calculating the funding adjustments and to the application of penalties?

- 41 We do not agree with the proposed approach to calculating the financial adjustment and penalty under the NARM Funding Adjustment and Penalty Mechanism. We do not consider that the current proposal addresses the concerns highlighted in our previous responses dated 16 August 2024¹² and 9 May 2025¹³. In our view, the mechanism introduces uncertainty and diverges from the original intent of the NARM funding framework, which was to "avoid ex-post assessment." This issue has been evident throughout RIIO-2, not only for GDNs but across the wider energy sector.
- 42 We recognise that an ex-post assessment may be necessary where actual delivery deviates significantly from the BNRO. However, under the current approach, the majority of delivered workload is categorised as Clearly Identifiable, and the absence of clear guidance on how this assessment is undertaken remains a significant concern. This creates substantial regulatory risk and investment uncertainty.
- 43 The lack of clearly defined selection and assessment criteria for Clearly Identifiable assets weakens our ability to confidently evaluate investment decisions against the funding framework. Furthermore, the lack of defined assessment criteria introduces subjectivity and undermines the basis for investment decisions that have already been taken to achieve the best customer outcomes by managing risk in the most appropriate way based on current circumstances.
- 44 We believe it is important to establish a robust funding mechanism upfront to avoid the uncertainty experienced in RIIO-2 and provide networks with a framework that reflects good asset management practices to make informed decision-making. We are keen to work with Ofgem to ensure that NARM delivers on its potential to appropriately recognise and compensate the effective management of network asset risk in a coherent and consistent manner.

OVQ6. Do you agree with our proposed approaches to improving the NARM framework?

- 45 We support Ofgem's overall objective to improve the NARM framework to enhance consistency and transparency with the principle of developing a consistent and standardised approach. However, we have concerns with some of the proposed approaches and timelines set out in Draft Determination.

¹² Consultation on Threshold for justifying Clearly Identifiable Over or Under Delivery under the NARM Funding Adjustment and Penalty Mechanism

¹³ Statutory Consultation on issuing updates to Network Asset Risk Metric Handbook

Overview Question Responses (OVQ)

- 46 A common methodology is already in place for GDNs, setting out the overall process for assessing condition-based risk and specifying the parameters, values and calculation methods to be used. This methodology is well documented and has proven effective in promoting alignment across GDNs. It also provides high-level guidance on asset condition data that feeds into NARM modelling, and we believe the level of guidance in the Common Methodology around asset condition treatment is appropriate.
- 47 We note there are practical challenges in establishing a fully consistent Engineering Guidance Document. GDNs have different internal processes for capturing engineering data due to variations in surveying techniques, inspection regimes, and historical asset management approaches. These differences are often driven by network-specific characteristics, operational driver, and legacy systems. As such, complete alignment on engineering guidance would be challenging and may not always deliver the intended benefits.
- 48 While we support Ofgem's proposal to establish an Information Gathering Plan, the proposed timelines are too short to produce high-quality, collaborative outputs. We recommend extending the schedule and providing clearer guidance on the structure and content of these documents.

4.1.4 Physical Security PCD - ET and GT

OVQ7. Do you agree with our proposal for the physical security PCD?

- 49 This is not directly relevant to SGN as we do not have sites that qualify. In the future there may be sites, and it is important that the option is maintained.
- 50 For any new sites that are identified through the CNI list then we have proposed that additional funding can be requested through a re-opener mechanism as set out in OVQ17 which would need to be sufficiently broad to cover physical site security.

4.2 Other policy areas

4.2.1 Climate Resilience

OVQ8. Do you agree with our approach taken to review of the Climate Resilience strategies?

- 51 SGN agree with the proposed approach. SGN has noted the next steps, as expected following the engagement through SSMD and subsequent meetings, that networks will be requested to provide an update on climate scenario planning, stress-testing for high impact/ low probability climate hazards and adaptation pathways by the second annual reporting submission in 2028.
- 52 SGN welcome the opportunity to contribute to the consultation on the guidance to be developed by Ofgem for how companies should carry out and report on climate resilience activities. We understand this will come during the RIIO-3 period.
- 53 We further understand that such guidance and reporting will result in a licence obligation to be introduced during the RIIO-3 period and urge Ofgem to adopt alignment with climate-related financial disclosure legislation that networks are already carrying out in response to the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, as well as the Adaptation Reporting Power (ARP) introduced under the Climate Change Act 2008. Such alignment would reduce the reporting burden on networks and avoid duplication.

4.2.2 Workforce Resilience

OVQ9. Do you agree with our views on Workforce Resilience strategies?

- 54 SGN agrees in the context that the draft determination has acknowledged that Networks have met the requirements of SSMD.
- 55 We note that our Workforce Resilience strategy document was compiled to support the delivery of our business plan and to ensure that we have sufficient people with the appropriate skills and competencies in place to

Overview Question Responses (OVQ)

manage our ongoing safety and licence obligations. In the Southern region, in particular, there is strong competition for those skill sets, and we need to maintain constant improvements in our approach to maintain our reach and attractiveness to those new entrants.

- 56 There is a risk that underfunding of allowances will undermine our workforce resilience and our ability to retain and attract critical resource required to deliver our workloads.
- 57 A key requirement to achieve this is that we need to ensure that there are appropriate allowances in place to support the ongoing training and development of staff so that we are able to maintain retention levels and attract resource to remain resilient.
- 58 We will continue to engage and collaborate with industry and government on these issues with a view to improve on workforce data and metrics.

4.2.3 Supply Chain Resilience

OVQ10. Do you agree with our views on the Supply Chain Resilience Strategies?

- 59 Agree in the context that Ofgem have acknowledged that they have met the requirements of SSMD, however this document was compiled to support the rest of our business plan in terms of key areas of concern and to support our workloads and allowance requests.
- 60 Focus on SSMD and DD is firmly on ET and only on challenges around procurement of long-lead items (materials and components). The Draft Determination states that supply chain challenges are more acute in ET.¹⁴, this overlooks the challenges around use of Contract Labour that have been highlighted by all GDNs as part of their business plan submissions. The challenge of the contractor supply chain is particularly acute in the southern part of England where there is very strong competition from other utilities (water, telecoms and electricity) and a shortage of skilled labour to complete the work available. This is explored more thoroughly in a report completed by Economic Insight.¹⁵.

Chapter 5 Business Plan Incentive (BPI)

5.1 Business Plan Incentive assessment

OVQ11. Do you agree with the equal weightings applied per criteria/rating for the 'Clarity scorecard' and the 'Business Plan Commitments scorecard' for the Stage C assessment?

- 61 We agree with the proposed weightings. However, we disagree with their application.
- 62 In our response to SGNQ7, SGNQ8 we have expressed significant concerns with the Business Plan Incentive.^{16, 17, 18}. Similar concerns have been noted in the application of a similar incentive in the water sector were raised by the Independent Commission on Water.¹⁹ who recommended that Ofwat's Quality and Ambition Assessment (QAA) should be withdrawn.
- 63 The clarity assessment and the page constraints placed on networks place those networks with a non-contiguous licence areas that are geographically, economically and socially diverse at a unique disadvantage.
- 64 The clarity assessment and the page constraints placed on networks also disadvantages networks that wish to present an alternative approach to the proposals set out within the SSMD and wish to provide appropriate evidence to substantiate that approach. This is in contrast to those networks who are willing to accept the SSMD proposals and are less proactive in identifying improvements.
- 65 This results in disproportionate, inconsistent, poorly targeted decisions around the application of Stage C which Ofgem must address.

¹⁴ RIIO-GD3 Draft Determination Overview Document, para 4.77, pg. 53

¹⁵ SGN-GD3-DD-ECR-01 – Economic Insights – Regional Contractor Costs

¹⁶ 06.03.24 – SGN Cover Letter & Response to Overview Document – Confidential.pdf, pg. 53, para 7.32, submitted 3rd March 2024.

¹⁷ 22-04-28 – SGN-OfGEM Letter Business Plan Incentive. (please note the file name should have aligned with the date of the letter - 28th April 2024)

¹⁸ 10-06-28 – SGN-Ofgem 2nd Letter Business Plan Incentive. (please note the file name should have aligned with the date of the letter - 10th June 2024)

¹⁹ Independent Water Commission, Recommendation 21: "The regulator should withdraw the QAA", pg. 209, July 2025

OVQ12. Do you agree with the weightings applied per outcome for each sector for use in the Stage C - Business Plan commitments assessment?

- 66 We agree with the proposed weightings; however, please note our concerns raised in OVQ 11 and SGNQ6, SGN Q7 and SGNQ8 regarding its application.

Chapter 6 Managing uncertainty

OVQ13. Do you agree with the use of a default materiality threshold and its level?

- 67 SGN disagree with the use of default materiality thresholds; we believe that there should be no minimum threshold for recovering costs that are not forecastable at the point of business plan submission and out with a company's control.
- 68 The Draft Determination states that materiality thresholds ensure that re-openers are not overused and companies manage their cost risk effectively through the Totex incentive mechanism, and to avoid unnecessary regulatory burden²⁰.
- 69 The calculation of these thresholds gives weighting to the scale of each company, meaning Scotland has a threshold of £2.1m whilst Southern has a threshold of £4.6m. The reopener mechanisms acknowledges that there are costs out with companies' control that can't be forecasted at the point of business plan submission, and it is in customers interests that these costs are considered when there is an appropriate level of information to establish the nature of work required and to make an effective determination of the efficient level of costs.
- 70 Given the challenges and time required to collate data and submit information, there are already natural administrative thresholds in place to prevent overuse. An efficient GDN will not submit a reopener claim for any value that would be outweighed by their administrative and regulatory costs – so the risk of an exponential increase in reopener claims should be deemed minimal.
- 71 As an example within RIIO-GD2, SGN was able to apply for the streetworks reopener. The costs had increased in both our Scotland and Southern licence areas; however, the cost increase in Scotland fell just short of the reopener threshold, whilst those in Southern easily exceeded. As a result, whilst being subject to similar changes, Scotland was unable to recover the costs for changes that were outside of its control.
- 72 The addition of minimum thresholds does limit use of the reopener mechanisms **and** increases the downside financial risk for **networks** and their **investors**.

6.1 Cross-sectoral uncertainty mechanisms

6.1.1 Whole Systems Co-ordinated Adjustment Mechanism (CAM) Re-opener

OVQ14. Do you agree with out proposed amendments to the CAM for RIIO-3?

- 73 We agree with the Draft Determination's proposal to retain the Whole Systems Co-ordinated Adjustment Mechanism (CAM) Reopener as well as the proposed amendments.
- 74 The CAM was introduced to facilitate the transfer of activities and associated revenues from one network company's price control to another. The draft determination retains this in GD3 and proposed the following:
- to remove the re-opener windows and allow network companies to make a submission under the CAM at any time during RIIO-3; and
 - introduce an Authority trigger to the CAM which we could use where the NESO has provided a recommendation which we wish to action, and which all affected network companies' support.

²⁰ RIIO-3 Draft Determinations Overview Document, para 6.5, pg. 64

- 75 The proposal to allow a single network company to unilaterally submit an application without the support of the partner network company has been removed. We support this removal, as well as the potential antagonistic implications identified in the draft determination; there could also be significant safety concerns that could arise from such an approach.

6.1.2 Net Zero and Re-opener Development (NZARD) UIOLI - GD and GT

OVQ15. Do you agree with our proposed design of the NZARD UIOLI?

- 76 SGN broadly supports Ofgem's approach to the Net Zero and Re-opener Development ("NZARD") UIOLI allowance, we recognise the decision taken within the draft determination to maintain a maximum spend per project of £2m²¹, and the award of an NZARD allowance of £13.45 million. We have three points regarding the proposed design. These are (i) projects between the UIOLI and PCD thresholds, (ii) the scope and (iii) funding expectations.
- 77 Within the SGN Business plan we presented a number of projects, that we considered more appropriate for funding through NZARD UIOLI, in order to maintain customer visibility and confidence in delivery. These projects were above £2m threshold that was implemented in GD2 and below the £15m threshold required to be separated out as a PCD. Our view is that there is a gap for projects between these two thresholds that need to be addressed.

Projects between the £2m UIOLI cap and £15m PCD threshold

- 78 Net Zero projects can be grouped into three broad categories by cost:
- (a) projects below £2m;
 - (b) projects between £2m and £15m; and
 - (c) projects above £15m.
- 79 The NZARD UIOLI allowance is intended to fund the development of small Net Zero projects, and early-stage work on Net Zero projects that network companies may bring forward under certain re-openers. At present, the NZARD UIOLI allowance is targeted at projects below £2m (Category (a), above). Our understanding is that all relevant projects for the progression of Net Zero are in scope, including H2 blending, RESP Co-ordination, and activities to support NESO, local government and LAEPs.
- 80 Projects above £15m (Category (c)) are covered by PCDs. They are, therefore, excluded for baseline and subject to individual technical assessments.
- 81 Projects between these two amounts (Category (b)) are included in baseline. Whilst they are included in baseline, it is important that they are excluded from the benchmarking cost assessment and instead subject to individual technical assessments. If this is not the case then the projects will lack appropriate funding.
- 82 This lack of funding arises as there is no appropriate driver in the regression model to reflect the additional workload that these projects represent. Without an appropriate driver, the additional workload is not recognised in the regression, and the costs that are necessary to deliver them will be deemed to be an inefficiency. They will be removed in their entirety.
- 83 These projects were prioritised and strongly supported by our customers; therefore, we want to ensure that there is appropriate accountability to our ISG for the delivery of measures. As a result, we consider the move to baseline funding is only appropriate if the projects are technically assessed outside of the cost assessment model, (these technical assessments can be lighter touch than for those undertaken for the larger PCD projects). This is akin to the process for determining the PCD, although we accept that Ofgem may choose not to enter a new licence condition and may determine that the scrutiny of the ISG and reputation harm from non-delivery is sufficient.
- 84 Provided that the Category (b) projects are included in baseline, and are excluded from the benchmarking cost assessment, then we fully support Ofgem's approach to the NZARD UIOLI and the award of an NZARD allowance of £13.45 million.

²¹ RIIIO-3 Draft Determinations Overview Document, July 2025, Para 6.20, pg. 68

Overview Question Responses (OVQ)

- 85 If, however, the relevant Category (b) projects cannot be subject to individual technical assessments and included in the baseline, the only workable alternatives are:
- (i) to extend the scope of the NZARD UIOLI allowance beyond £13.45 million to cover both Category (a) and Category (b) projects – in other words, projects below £15m; or
 - (ii) to extend the scope of the PCDs to cover both Category (b) and Category (c) projects – in other words all projects above £2m.
- 86 For the avoidance of doubt, these projects cannot be subject to regression analysis. If the projects were subject to regression analysis it would give rise to three points of inappropriate penalty.
- Firstly, the funding requested to deliver an output that is supported by customers is removed and identified as catch-up efficiency.
 - Secondly, SGN is then penalised through the business plan incentive for having an environmentally ambitious plan that looks to deploy innovation and demonstrate its deployment.
 - Finally, it causes SGN reputational damage, as we are unable to deliver a project that at face value appears to have been accepted and ruling out appropriate funding in future price control periods on the justifiable but incorrect assumption that it has already been funded.
- 87 The projects that we presented in our business plan are set out below along with the draft determination outcome and the question response where it is discussed in more detail.

Table 14: Projects falling between the >£2m UIOLI governance and <£15m PCD threshold

NZARD funding area	£m	Draft determination outcome	Question Response
Remote pressure management	£11.22m	Moved to baseline – Requires technical assessment	SGNQ9
Intelligent gas grid	£7.1m	Potential for NZARD reopener funding	SGNQ10
Biomethane access rollout	£7.3m	Moved to baseline – Requires technical assessment	SGNQ11
Bio-CNG (Oban/Campbeltown)	£5.0m	Potential for NZARD reopener funding	SGNQ12
Advanced Leakage Detection	£12.4m	Moved to baseline – Requires technical assessment	GDQ2
H2 Blending	£1.6m	Disallowed in DD	
Total	£44.62m		

Scope of the UIOLI.

- 88 Whilst we welcome confirmation that the scope of the UIOLI is extended to the RESP co-ordination²² we would like to confirm that this should also cover activities related to the NESO, local government and LAEPs for the progression of net zero. Significant time and personal resources need to be committed to engage with these bodies if we are to support the journey to net zero in the most informed and cost-effective manner.
- 89 Gas networks are complex systems that have a critical safety and energy security of supply considerations, robust decision by these parties needs to be supported high quality information that networks are able to provide. This requires time and resources to engage effectively, the cost of this should be recoverable through the UIOLI in order to give rise to the following benefits;
- **It supports SGN's whole system approach.** As SGN move towards a more integrated energy system, a critical component of successful delivery will be collaboration and engagement at national, regional and local level. Enabling local government and LAEP engagement to be funded through the net zero uncertainty mechanisms will support SGN in delivering its whole system approach.
 - **It enables SGN to build on the impactful work delivered in GD2.** The funding will allow us to continue delivering positive outcomes, similar to those achieved during GD2, such as our work with Dundee City Council,

²² RIIO-3 Draft Determinations Overview Document, July 2025, Para 6.19, pg. 68

Overview Question Responses (OVQ)

one of the first local authorities to publish a LAEP. We supported the development of a whole system plan for a zero-carbon energy system for the city.²³

- **Network companies undertake their own analysis and strategic planning independently of RESPs.** This independent activity means they require direct engagement with local stakeholders to ensure alignment with regional and local energy needs. While RESPs will also engage with local organisations, it is essential that network companies are engaged in their own right and in parallel, to support the development of effective and coordinated local energy plans.
- **Network companies are required to engage regularly with local governments and LAEPs across the UK.** For example, SGN actively participates in:
 - The City of Edinburgh and City of Dundee Net Zero Strategy Groups in our Scotland network and in our Southern network Oxfordshire and East London LAEPs on a regular basis.
 - Engagement with 30 of the 32 Local Authorities in Scotland, supporting the development of their Local Heat and Energy Efficiency Strategies in line with Scottish Government policy.

Funding expectations and alignment with ALD

- 90 We agree in principle that if the projects identified above are not included in the NZARD UIOLI mechanism then the £13.45m funding provision set out in the draft determination²⁴ will be sufficient.
- 91 We are very concerned with proposals that additional costs of rolling out ALD (Cadent refer to this as AMD) beyond the funding £12.4m provided within the draft determination should come through the NZARD UIOLI.²⁵ We note that across their GD2 Net Zero reopener Cadent were awarded a further £20.5m.²⁶ in addition to the £27.5m awarded within their GD3 draft determination, providing a total of nearly £50m to roll-out ALD.
- 92 As we set out in our response to GDQ2²⁷, there is a high level of uncertainty regarding the ALD programme, including both the costs and the associated benefits. Cadent are most advanced in their progress of AMD. If Cadent's cost estimates are correct, then it is clear that the UIOLI fund could easily be absorbed through the delivery of AMD. This is discussed more in our response to GDQ2; however, there is a significant risk of a mismatch between funding, expectations and customer benefits that needs to be addressed.

6.1.3 Net Zero Pre-Construction and Small Projects (NZASP) Re-opener - GD and GT

OVQ16. Do you agree with our proposed design of the NZASP re-opener?

- 93 SGN is broadly supportive of the Ofgem's approach to the NZASP reopener. However, we would question whether the cap of £100m is appropriate. This has been justified on the basis that the thresholds have work well in GD2, and that cap may not prove to be a constraint in GD3 either. However, if a large project is proposed that is supported by customers, stakeholders, DESNZ, NESO and the relevant RESPs then the cap would present a barrier to progressing, and example could have been the hydrogen village trial if it had progressed.
- 94 In addition to agreeing and appropriate cap, there are some specific design requirements that should be considered;
- **Cost Recovery.** The NZASP reopener the cost recovery mechanism should be clarified, particularly, when a project should be recovered from the wider national customer base through NGT charging structures and when the project should be recovered from the licensee's customer base.
 - **Capitalisation rate.** The capitalisation rate within the PCFM is currently fixed and is not always appropriate for the type of project undertaken. This should be made to be a variable that can be flexed on a project-by-project basis.
 - **Treatment of price risk and inflation.** Particularly for large projects that span multiple years, there needs to be a clearer application of inflation and real price effects that needs to align with the cost recovery mechanism.

²³ [SGN-GD3-SD-05-Innovation-strategy.pdf](#)

²⁴ RII0-3 Draft Determinations Overview Document, July 2025, Para 6.24, pg. 69

²⁵ RII0-3 Draft Determinations Gas Distribution, July 2025, para 3.28, pg. 19

²⁶ RII0-2 Reopener Applications 2025 Draft Determinations – GD Sector Annex, July 2025, para 5.1 pg. 17 (28/19 prices have been converted into 23/24)

²⁷ SGN-GD3-DD-GD - SGN Draft Determination GD Response

Overview Question Responses (OVQ)

- 95 We have identified several areas where potential projects can be brought forward during the GD3 period, utilising the NZASP mechanism and we have identified a number of projects that we would look to progress through the NZASP reopener when they are suitably advanced, these are set out more detail in our Business Plan submission.²⁸.

6.1.4 Resilience Re-opener

OVQ17. Do you agree with our design proposal for the resilience re-opener?

- 96 We agree with the need for a resilience reopener. However, the reopener looks as though it is constrained to CNI sites. Can we clarify that this reopener is applied to all sites, not just those with CNI status.
- 97 Ofgem's proposed approach to the resilience reopener for both new challenges and any changes to existing arrangements that may arise during the price control period. Recent years have demonstrated the importance of improving resilience, and we will support discussions with Ofgem, Government and other GDNs in understanding what the expectations are, and what is reasonable to submit through the reopener.

6.1.5 Real Price Effects (RPEs)

OVQ18. Do you agree with our proposed approach to RPEs?

- 98 We note no significant change in Real Price Effect design compared to the GD2 approach, with the main adjustment being an increase in the number of indices used within the "Materials" category, though due to the relative size of this category the impact is minor.

Index Selection and Weighting

- 99 While we acknowledge the introduction of new indices within the 'materials' category, we question the relevance of some of the chosen categories when applying an equal weighting across all categories with engineering intuition.
- 100 Specifically, we note that the index for "Plastic", of which GDNs will be most exposed to as a material price, has a 10% weighting within the "Materials" category within the GD3 DD. This compares to the GD2 weightings which, due to a lower number of indices, placed 33.3% weighting on the plastic index. Due to multiple indices reflecting areas of metallic costs, the current weighting approach places a 40% weighting on specifically identified metallic indices, which is counter-intuitive to the repx program being mostly aligned to replacing network with PE.
- 101 We present in Table 15 below the suggested indices within the DD and suggested weightings aligned with SGNs view of engineering intuition.

Table 15 - SGN Proposed RPE Material Index Weightings for GD3

	DD Weighting	SGN Proposed
4/CE/24 Plastic Products (including pipes)	10%	50%
3/S3 Structural Steelwork - Materials: Civil Engineering Work	10%	5.6%
4/CE/EL/02 Electrical Engineering Materials	0%	0.0%
FOCOS Resource Cost Index of Infrastructure: Materials FOCOS	10%	5.6%
PPI INDEX INPUT	10%	5.6%
3/58 Pipes and Accessories: Copper	10%	5.6%
4/CE/25 Aluminium Products	10%	5.6%
4/CE/26 Metal Structures	10%	5.6%
90/12 Timber	10%	5.6%
NOCOS Resource Cost Index of Building Non-housing: Materials		
NOCOS	10%	5.6%
Construction Output Price Indices (COPI)	10%	5.6%
Total	100%	100%

²⁸ SGN GD3 Business Plan, Dec 2024, pg. 73 – 74, table 8d

Overview Question Responses (OVQ)

Source: SGN Analysis

- 102 We suggest an increased weighting of 50% aligned to the “4/CE/24 Plastic Products (including pipes)” index, which is mostly aligned to plastic products, with a corresponding equal split amongst the other suggested indices by Ofgem. This would provide an increased alignment to actual material cost exposure.
- 103 Labour weightings have not been adjusted for both index choice and weighting for the GD3 period compared to GD2. Below are the suggested weightings for labour indices for GD3 DD.

Table 16 - SGN Proposed RPE Labour Index Weightings for GD3

	DD Weighting	SGN Proposed
AWE: Private Sector Index: Seasonally Adjusted Total Pay Excluding Arrears	33%	33%
AWE: Construction Index: Seasonally Adjusted Total Pay Excluding Arrears	33%	33%
Electrical engineering labour	0%	0%
4/CE/01 Civil Engineering Labour	33%	33%
Total	100%	100%

Source: SGN Analysis

- 104 The weightings applied in GD2, and carried forward to GD3, are materially aligned with the proportion of back office workers (aligned to the AWE: Private Sector Index) and front-line workers (aligned with AWE: Construction Index and Civil Engineering Labour) and, therefore, we do not propose an adjustment compared to the GD2 weightings.

Regionality within RPE

- 105 Within our business plan we put forward the position on regionality of Real Price Effects (RPE), noting that while Ofgem do consider regional factors within the setting of allowances ex ante, in reality the impact of regional factors on costs evolving across the price control can also have a regional aspect.
- 106 We acknowledge that the indices chosen to represent the RPE movements do not necessarily have regional data available to implement a regional approach to setting RPEs within the GD3 price control, and there is little availability of indices to identify how costs evolve across the price control period.
- 107 We discuss within our response document (GDQ36) the high risk of cost movements within our Southern network due to an increasingly tightening labour market within the GD3 period. Economic Insight²⁹ identify there is a tight labour market in London and the South East for relevantly skilled construction and gas workers. We discuss within GDQ36 the importance that these factors are adjusted within cost assessment, particularly as Economic Insight also identify new Government initiatives may put further pressure on networks, attracting gas workers to alternative energy sectors.
- 108 As there is no suitable index to account for the regional movement to be embedded within the RPE framework, it is even more vital that suitable normalisations are applied to determine the true cost of operating within our areas, and to set appropriate ex-ante allowances to enable networks to deliver their required workloads.

Materiality Thresholds

- 109 Within our business plan submission, we suggested the materiality threshold be reduced from the current 10% of totex value, as there were some key elements of expenditure that seemed to be omitted due to the overly high materiality threshold set.
- 110 Plant and equipment are a key elements of expenditure that was omitted from the GD2 RPE cost indices due to the materiality threshold and is being proposed in the GD3 settlement to also not meet this threshold. It should be noted that networks don't only incur plant and equipment costs as direct line items, and our contractor costs will also include an element of plant and equipment which will influence costs.
- 111 Within para 6.53, table 12 of the GD3 DD Overview Document the share of costs allocated to plant and equipment is 9.6%, within 0.4% of the materiality threshold. Due to an element of plant and equipment costs

²⁹ SGN-GD3-DD-ECR-01, Economic Insight - Regional contractor costs

Overview Question Responses (OVQ)

being embedded within contractor and other cost areas, it is clear that the plant and equipment costs will exceed the 10% threshold.

112 As such it seems appropriate that there is consideration of plant and equipment within the RPE cost indices for GD3.

Lag indicators

113 Ofgem have rejected the approach of lagged indicators due to challenges of variation between company structure causing issues with determining when the lag should be implemented and through the complexity of introducing this approach.

114 We note that the current structure of RPEs is based on a notional view of a company structure, so to discount the approach due to challenges of applying to individual company structures would be invalid. Further, the issue of real cost impacts being misaligned to when the indices data reports impacts would be materially consistent across all companies so could be applied.

115 The implementation of such an approach within Ofgem's RPE model would be relatively simple, and we propose to engage with Ofgem within working groups on how this approach could be implemented.

Application of RPEs

116 It is important that RPEs are appropriately applied to all costs where there is a settlement which is then delivered over an extended period of time. Specifically, RPEs should be applied in an appropriate manner to extended project deliverables set out through re-openers that are determined early within the price control. We would advise that there should be the functionality within the PCFM to apply RPEs to re-openers on a case-by-case basis.

Recommendation

117 We propose an adjusted weighting of the material indices to better reflect the reality of our cost base. The weightings for labour indices are materially aligned with our cost base and appropriate.

118 Where there is no clear regional index available to determine an ex-post RPE mechanism, it is even more vital that appropriate normalisations for contractor wage premia (GDQ36) are applied to determine accurate ex-ante allowances.

119 Plant and equipment should be included as an RPE adjustment as the materially threshold including the full elements of plant and equipment costs embedded within other cost areas will be surpassed.

120 Within re-openers there should be an approach to be able to allocate RPEs on a case-by-case basis.

Chapter 7 Gas depreciation

7.1 Gas depreciation

Consultation questions on gas regulatory depreciation are set out in SGN's Finance Response³⁰

Chapter 8 Cost of Service

8.1 Ongoing Efficiency

OVQ19. Do you agree with our proposed approach to ongoing efficiency?

³⁰ SGN-GD3-DD-FD - SGN Draft Determination Finance Response

Overview Question Responses (OVQ)

- 121 We disagree with the proposed approach to ongoing efficiency on the basis of the analysis undertaken in the draft determination appears to be focused on supporting not changing an existing theory rather than an assessment of the evidence.
- 122 The draft determination sets an ongoing efficiency target of 1.0% per annum, in contrast to the ongoing efficiency targets proposed by SGN and other gas networks of 0.5%. This ambitious target was set as the midpoint of a range set out in independent sector report from Economic Insights³¹.
- 123 The Grant Thornton³² report that was relied upon by the draft determination has not set out any material new evidence, analysis or arguments to support its decision. The approach was to start from a broad range of 0.1%-1.3% pa, as proposed in a report by Grant Thornton (GTh)³³, and then the draft determination narrows the range, on the basis that the range is considered to be too broad to reflect specific factors relevant to the energy sector.³⁴ This creates a narrower range of 0.7%-1.3%³⁵ per annum and then select a point estimate from this range of 1%³⁶.
- 124 This target is materially higher than the target proposed by gas companies in their business plans (0.5% pa). SGN set a target of 0.5% pa.
- 125 In a report commissioned by gas networks to assess the recommendations of the draft determination, Economic Insight³⁷ identifies a number of errors in how the OE target has been from the available evidence and regulatory precedent and then identifies that the draft determination bases its assessment on a number of incorrect and un evidenced claims to justify the selection of an OE figure that is unreasonable.
- 126 We therefore request that ongoing efficiency is restated to 0.5% per annum as supported by networks in their business plans.

Reliance on outcome as precedent

- 127 In setting its final OE target, Ofgem has erroneously relied on the precedent set by the outcome of previous regulatory decisions, rather than relying on an analytical method used to reach that outcome. In making its regulatory decisions, Ofgem may reasonably rely on analytical methods previously used to set regulatory targets. This approach makes the regulatory process more predictable and efficient and is the approach Ofgem follows for other aspects of the price control – e.g. most components of the WACC, RPEs, the three regional factors and cost benchmarking.
- 128 In setting OE, however, Ofgem started with the outcome of its RIIO-2 decision on OE (i.e., the 1% target) and considered whether this remained an appropriate target for RIIO-3. As such, Ofgem relied on the outcome of a previous regulatory decision on OE and then sought to justify it – rather than using its previous method to setting OE.
- 129 Relying on the outcome of a previous decision as precedent is illogical. If precedent is interpreted as the target then the target would always remain the same and would not respond to change in economic conditions, or new evidence. In such instances, the OE target becomes a hypothetical construct that is divorced from reality of the economy and specific local circumstances in which we operate.
- 130 Instead, from price control to price control, the regulator-set OE target should reflect underlying changes in the scope for regulated industries to achieve further productivity gains, which, under a benchmarking approach, is informed by the historical productivity performance of other comparator industries.
- 131 In their report that was submitted to support the business plan³⁸ Economic Insight identify that, based on analysis undertaken by the Productivity Institute, there is strong evidence to suggest that, historically, the ongoing efficiency assumption of 1% has been set too high and has not been achievable, leading to an underfunding of gas networks. The report supported this assessment with revised Bank of England Total Factor Productivity Growth estimates of 0.3%.

³¹ SGN-GD3-ECR-20 - Economic Insight – Ongoing Efficiency for Gas Networks at RIIO-3, and SGN-GD3-ECR-21 Economic Insight Further Evidence on OE for Gas Networks at RIIO-3

³² Grant Thornton, Independent Report on Ongoing Efficiency, RIIO-3 Technical Annex, June 2025

³³ RIIO-3 Draft Determinations Overview Document, July 2025, para 8,28, pg. 91

³⁴ RIIO-3 Draft Determinations Overview Document, July 2025, para 8,29, pg. 91

³⁵ RIIO-3 Draft Determinations Overview Document, July 2025, para 8,32, pg. 92

³⁶ RIIO-3 Draft Determinations Overview Document, July 2025, para 8,35, pg. 94

³⁷ SGN-GD3-DD-ECR-12 - Economic Insight – Independent review of Ofgem's DD OE approach

³⁸ SGN-GD3-ECR-21 Economic Insight Further Evidence on OE for Gas Networks at RIIO-3

Overview Question Responses (OVQ)

132 In their monetary policy report³⁹, the Bank of England have concluded that potential productivity is anticipated to be much weaker than expected in 2024 with negative total factor productivity (TFP) in 2024, zero TFP in 2025 before increasing to 0.5% and 0.3% in 2026 and 2027 respectively. These updated forecasts demonstrate that both the 0.5% assumption set within our business plan is extremely ambitious in the current economic climate as well as taking into account our specific local circumstances.

133 Further, when running ongoing efficiency forward from a historical point of reference, the time of the business plan submission, these revisions in forecasts show that is important to use robust actual data or near-term forecasts as the basis of any changes. Failure to do so will lead to material error through the compounding effective of ongoing efficiency being applied over multiple years.

Incomplete business cycles and removal of outliers

134 As set out in the Economic Insight report 40, In calculating their upper and lower range, the draft determination has relied on a period of only positive GDP growth (1997-2007), rather than a complete business cycle; and removed three years from their analysis (2008, 2009, 2020) incorrectly referring to them as outliers. This creates an upward bias in the analysis which suggests that the draft determination is excluding them on the basis that the evidence is inconsistent with the theoretical approach preferred, rather than adjusting the theory to align with the prevailing evidence.

135 It is well-established in both the literature and in prior regulatory decisions that analysis of productivity growth should be conducted over complete business cycles. This is because productivity growth is correlated with GDP growth (and capital expenditure is typically lumpy over time) – full business cycles should be used to avoid biasing any estimates (this captures the full range of productivity growth that inherently exists across full business cycles and smooths out any bias created by lumpy capital expenditure).

136 Furthermore, to rely on loose claims that 2008, 2009 and 2020 are somehow remarkable (outlier) years of low productivity growth, but to not come to the same conclusions about years of remarkable high productivity growth (e.g. the dotcom bubble) represents a failure to apply a consistent approach to outlier identification and removal.

137 While outlier removal is sometimes necessary to avoid a distortion through poor data quality, it should be done with great care and only where there is a rationale to explain why it is an outlier, that it should be done on an established and consistent statistical basis, and it should be clear that its inclusion would generate a material error in the findings.

138 This is clearly not the case in this situation and the evidence base should be returned. Adjusting GTh's analysis to add back in the outliers and include full business cycles, substantially reduce the upper bound of its range:

- If we take the time period that gives the upper bound of GTh's range (1997-2007) and add back in the two outliers (2008 and 2009), the upper bound falls from 1.3% to 0.8%.
- If we then extend the period to include the nearest complete business cycle (1992-2009), the upper bound falls from 1.3% to 0.9%.

Unsupported and incorrect claims

139 Ofgem has made a number of unsupported and incorrect claims to justify the use of a number at the top of the range.

- **Alignment with IT and telecoms sectors**⁴¹ – The draft determination makes a logical errors in asserting the productivity in the gas networks is strongly linked to productivity in the underlying sectors (IT and communications) and that networks will enjoy greater productivity growth because they are increasing spending on intermediate inputs which are themselves enjoying high productivity growth. This is despite the fact that these sectors remain a relatively small proportion of overall expenditure. If this dragging up effect was to happen in reality then there should be a clear correlation between IT and communication expenditure and productivity growth, which does not exist⁴².

³⁹ Bank of England Monetary Policy Report, Monetary Policy Committee, Feb 2025

⁴⁰ SGN-GD3-DD-ECR-12 - Economic Insight – Independent review of Ofgem's DD OE approach

⁴¹ RIIO-3 Draft Determinations Overview Document, July 2025, para 8.33, pg. 93

⁴² SGN-GD3-DD-ECR-12 - Economic Insight – Independent review of Ofgem's DD OE approach, Figure 4

- **Companies' ability to benefit from customer funded innovation⁴³.** Whilst the draft determination identifies that the significant sums were made available to networks through the NIA and the SIF, it fails to identify that utilising these innovation funds to support efficiency measures was explicitly ruled out at the start of GD2 and the decision was taken that NIA funding must focus on energy system transition or addressing customer vulnerability therefore it is incorrect to assume a productivity benefit associated with innovation funding. Similarly Advanced Leakage Detection (ALD) and data platform for leakage analytics (DPLA) are environmental and safety driven, there is no clear evidence of significant productivity improvements arising, rather we are concerned about the opposite impact.
- **Using NGET as the bottom end of the plausible range⁴⁴.** The draft determination states that all companies should be able to at least match the highest level of ambition presented, which at the time of DD was NGET proposal of 0.7%. It is incorrect to assume comparability between a network with high investment needs and significant growth prospects who is therefore able to take advantage of the latest technology and methods the new investments in which it is making and a sector that is has limited growth, which is maintaining assets with least cost to maintain safety and network integrity. Assuming that a low-growth / static network can achieve the same levels of productivity growth as a high growth company is flawed logic.

140 Due to consistency with the outputs of consultancy reports, the consistency in commitments of networks and clear evidence of lack of GDP growth within Great Britain a 0.5% ongoing efficiency assumption is highly ambitious and should be utilised within Ofgem Final Determination for setting allowances.

Chapter 9 Innovation

9.1 Network Innovation Allowance (NIA)

OVQ20. Do you agree with our proposed NIA funding levels?

141 SGN does not agree with Ofgem's proposed NIA funding allowance. Of the £30.7 million requested in SGN's Business Plan, only £6.2 million has been awarded.

142 Our resubmission is set out in our response to SGNQ17⁴⁵. Having considered the position in the draft determination we have presented an appropriate evidence base to support the funding of an NIA allowance of £29.65m.

OVQ21. Do you agree with our approach to the future of gas-related workstreams?

143 SGN do not agree with Ofgem's approach to future gas-related workstreams, and we do not agree with its decision not to fund any further enabling work for hydrogen blending.

144 Whilst we recognise the uncertainty and that important policy decisions remain to be taken, it is important to maintain optionality as policy decisions can change in the light of new information.

145 We are very concerned that there is a significant gap that has developed between the role of Ofgem and the role of DESNZ on the development of hydrogen blending and the pre-work necessary to support the hydrogen transport business model.

146 A significant body of knowledge has been built over the last two price controls, and if that collective knowledge disperses, then it will be difficult and time-consuming to rebuild. There is a risk that many of the challenges that electricity transmission is currently experiencing could be replicated in the gas networks arising from a hiatus in hydrogen-related work.

We recognise that it is challenging for Ofgem to provide funding commitments without clear policy guidance, and it is our view that this represents a missed opportunity to deliver early decarbonisation opportunities for gas consumers and risks locking us into a higher cost net-zero pathway. Without this funding we will be less able to adapt and become the enabler to deliver the government strategy and stakeholder requirements.

⁴³ RII0-3 Draft Determinations Overview Document, July 2025, para 8,33, pg. 93

⁴⁴ RII0-3 Draft Determinations Overview Document, July 2025, para 8,3, pg. 94

⁴⁵ SGN-GD3-DD-SGN - SGN Draft Determination SGN Response

Overview Question Responses (OVQ)

OVQ22. Do you agree that £2.5m of additional NIA should be used to provide enhanced advisory services for innovators at the early stages of innovation development?

147 SGN are supportive of the NIA mechanism funding this activity and would align with our experience of managing promising ideas. We note the proposal⁴⁶ to review the enhanced advisory services in year 2 to determine whether to maintain, stop or expand it. We agree, however, we note that 2 years may be too early to determine its full effectiveness and if additional funding is recommended then this should be additional to the NIA amounts agreed within the final determination. Through the multiple engagements and interactions, we have undertaken in GD2, there are many startup organisations who are predominately interested in capital investment to kickstart their business where NIA is explored but often deemed unsuitable by the potential partner due to IP retention requirements within the governance and eligibility for the type of project/business being presented to the networks.

148 However, SGN believes this activity could be supported by providing:

- Guidance on TRL/CRL/IRL alignment and suitability for SIF entry stages;
- Help shape problems/solutions meet value-for-money narratives;
- Direction on collaboration opportunities with networks and system operators;
- Feedback loops to avoid duplication and better target innovation gaps; and
- Access to insights on innovation priorities.

149 SGN believe that Networks should be directly involved in advising the scope and priorities of the support services through a cross-network advisory panel. This will help to ensure the service is targeted at genuine system needs, avoiding duplication, and complement existing initiatives such as our Innovation Highways, scouting and radar work to bring benefits to consumers. By embedding this governance structure, the advisory funding can build a more inclusive, diverse and capable innovation ecosystem that better feeds into the SIF or NIA pipeline of potential projects.

150 As noted in the Draft Determination⁴⁷ the contribution to this fund will be proportionate to the NIA funding level in the Final Determination, this will establish a fixed fund that we believe can be appropriate administer on behalf of the gas networks by Future Energy Networks (FEN) in co-ordination with the Energy Networks Association (ENA) avoid duplication and ensure collaboration across the whole energy system.

OVQ23. Do you agree with our approach to improving oversight and reporting of the NIA?

151 SGN supports Ofgem's goal to strengthen oversight and reporting under the NIA and we think that it is important to act on the recommendations of the Citizen Advice Report⁴⁸. Having consistency in clear requirements and reporting benefits and next steps are essential to ensure learning is shared across the sector and that we maintain confidence in the NIA, adding value to the UK consumer. We're committed to working within the existing reporting framework and are ready to adapt to any new requirements once these are clearly defined.

152 It is important to continue to refine expectations in terms of reporting and the format in which project should take. Reporting requirements need to strike the right balance between the provision of useful information in a clear and transparent manner applied consistently across networks and the provision of information where the volume of material becomes a barrier in itself to clarity and transparency.

153 SGN asks that any new requirements are aligned with the purpose of the NIA mechanism and the types of projects it supports. If high-level TRL operational projects are not permitted, reporting should not focus on short-term operational savings typical of business-as-usual activities

9.2 Strategic Innovation Fund (SIF)

OVQ24. Do you agree with our proposals to allocate £500m for SIF funding?

⁴⁶ RIIO-3 Draft Determinations Overview Document, July 2025, para 10.19, pg. 104

⁴⁷ RIIO-3 Draft Determinations Overview Document, July 2025, para 10.19, pg. 104

⁴⁸ Making Innovation Count – A transparency review of NIA and SIF projects. August 2025

Overview Question Responses (OVQ)

154 SGN supports this funding ceiling as sufficient, with the £500m aligning well with current innovation pipeline maturity and delivery capacity across the sector. We believe this will enable a balanced mix of Discovery, Alpha, and Beta stage projects, supporting both early-stage ideation and more advanced, near-deployment innovations.

155 SGN also supports flexibility in how the fund is allocated, so that if the innovation pipeline grows or matures faster than expected, reallocation or scaling can be considered. This adaptability will help ensure the fund remains responsive to sector needs and continues to deliver maximum value.

OVQ25. Do you agree with our proposals to introduce a 'Programmatic Approach' to the SIF?

156 SGN supports Ofgem's proposal to adopt a more programmatic approach to the SIF. We believe that a programmatic approach will enable more system-wide innovation with multiple projects under shared strategic goals.

157 SGN expects the opportunity to lead or co-lead major innovation programmes, aligning delivery with operational priorities and regional decarbonisation strategies. We look forward to being actively involved in the co-design of programme themes, ensuring gas and whole-system challenges (e.g. hydrogen, biomethane, flexible heat) are fully represented from the outset.

158 The collaborative Innovation Highways concept that is under development can support how a structured, end-to-end innovation journey—from idea to deployment—can be used to prioritise investment and unlock scalable solutions.

159 Finally, SGN believes that governance structures should ensure balanced representation between gas and electricity networks. This could be achieved through mechanisms such as ringfencing or the use of evaluation panels with equal representation, helping to ensure fair consideration of innovation opportunities across all energy vectors.

OVQ26. Do you agree with our proposal to introduce a £50m deployment fund, utilising £50m from the total £500m SIF allocation?

160 SGN supports the introduction of a dedicated Deployment Fund within SIF to bridge the gap between late-stage trials and full commercial rollout. It addresses the current situation where promising Beta-phase innovations often stall due to lack of capital or commercial incentives.

161 However, we believe that this should be accomplished in a way that preserves the essential funding allocated for early-stage Discovery, Alpha, and Beta innovation phases. By establishing a distinct, ringfenced Deployment Fund, we can ensure that both innovation and deployment activities are adequately supported, maximising benefits for consumers and the whole energy system.

162 Without dedicated funding and ownership, SGN has seen market innovations struggle to scale due to lack of resource, focus, or delivery accountability; a Deployment Fund helps bridge this gap and supports planned, agile, and consistent implementation to bring value to customers quicker.

OVQ27. Do you agree that the deployment fund should also be open to innovation projects that haven't been funded through NIA, NIC or SIF?

163 SGN supports allowing access to the Deployment Fund to projects not previously funded through NIA, NIC, or SIF if they deliver clear consumer and system benefits. This approach captures high-potential innovations from diverse sources and accelerates their adoption.

164 However, all projects must meet strict criteria for replicability, learning, consumer value, and strategic alignment. The fund should focus on proven, scalable solutions and maintain transparency in project selection to ensure strategic, long-term value for the energy system and customers.

OVQ28. Do you agree with our proposal to reverse the SSMD position of removing the Discovery phase from SIF?

Overview Question Responses (OVQ)

165 SGN supports the reinstatement of the Discovery phase within the SIF, but not at the expense of the £1.25m reduction to the front-end innovation allowance currently allocated under 'Today's Network' section of the NIA within our Innovation Strategy for RIIO-3.49. The original request was not solely intended to replicate SIF Discovery-stage activities, but to support broader innovation functions such as scouting and partner engagement. SIF discovery is unlikely to generate similarly beneficial outcomes due to its accessibility based on themes and the overall mechanics of the framework. Disallowing this NIA funding because of reinstating the Discovery phase risks undermining the early-stage capabilities that enabled SGN to deliver high-quality innovation during GD2.

OVQ29. Do you agree with our proposals to retain the core aspects of the SIF for RIIO-3?

166 SGN supports retaining the core structure of the Strategic Innovation Fund (SIF) for RIIO-3 but recommends key process improvements to enhance efficiency and participation, especially for smaller organisations. The existing stage gate model (Alpha, Beta) is effective, but the Discovery phase and application process are resource-intensive, creating administrative burdens and making collaboration and planning challenging. Industry feedback highlights that the submission system is difficult to use, and inconsistent assessment feedback from UKRI and Ofgem adds confusion, particularly for smaller contributors.

OVQ30. Do you agree with our proposals for a more flexible approach to contribution rates to fund SIF projects?

167 SGN supports a flexible approach to SIF contribution rates, as lowering financial barriers encourages wider participation, especially from SMEs and specialist partners. Experience from RIIO-2 indicates that requiring contributions during Discovery and Alpha phases hinders SME involvement; contributions are better suited for the deployment stage when projects are more mature and benefits clearer.

168 SGN recommend removing contribution requirements for Discovery and Alpha phases to encourage greater SME participation and early innovation. Contribution rates should instead apply at deployment, alongside the proposed £50 million fund, to support commercialisation. Ofgem should provide clear guidance on applying rates and regularly consult stakeholders to ensure the model remains practical during RIIO-3.

OVQ31. Do you agree with updating the SIF eligibility criteria and assessment process?

169 SGN supports updating SIF eligibility and assessment criteria, emphasising the need for clear, transparent standards that ensure fairness and reward the strongest projects. Updates should continue to encourage third-party participation and support diverse innovation types with measurable consumer benefits and deployment potential.

170 To ensure fairness, any updates to eligibility criteria should not disadvantage gas network-led initiatives but should instead reflect the evolving role of gas within a whole-system decarbonisation approach. SGN recommends developing revised criteria collaboratively with networks and Innovate UK, ensuring they remain practical, inclusive, and focused on delivering positive outcomes.

OVQ32. Do you agree with our proposal to establish a direct pathway for transformative projects to seek Ofgem's support for funding?

171 SGN supports a direct pathway for transformative projects seeking Ofgem funding, particularly for high-potential ideas outside the traditional SIF model. However, several conditions are essential for success:

- **Additionality and Transparency:** The new pathway should add to the existing SIF process, not reduce the funding available for core network innovation. It must have clear criteria and governance to prevent any perception of preferential treatment and to ensure open, transparent allocation of funds.
- **Whole-System Relevance:** Projects should show potential to benefit the entire energy system or consumers, even if these benefits are indirect. At the same time, the pathway should not dilute SIF's main goal of supporting regulated network transformation.

⁴⁹ [SGN-GD3-SD-05-Innovation-strategy.pdf](#), paragraph 90

Overview Question Responses (OVQ)

- **Integration Pathway:** Transformative projects that receive funding need a clear route for testing, deployment, or integration by networks. Expectations should be set for their technology readiness level (TRL), scale, timeline, and commercial model.
- **Collaboration:** While it is important to support innovators from outside traditional energy networks, this should not come at the expense of collaboration. SGN recommends that projects align with at least one system operator, DNO, or GDN as a partner, reviewer, or pathway sponsor.

172 SGN is, in principle, supportive of encouraging innovation from a wide range of sources and has demonstrated a commitment to collaborating with academia, SMEs, and community energy groups. However, it is important that any direct pathway complements and strengthens the existing innovation ecosystem, rather than causing fragmentation.

173 SGN would welcome further engagement to define how such a pathway would work in practice and how it can be effectively integrated within the current SIF governance framework.

OVQ33. Do you agree on the need to clarify roles and responsibilities within the innovation ecosystem, and the factors that we should consider?

174 SGN supports Ofgem's proposal to clarify roles and responsibilities in the innovation ecosystem to ensure clarity and transparency. Clear accountability and coordination are essential to drive collaboration and avoid duplication. To address this, we have put several measures in place to strengthen our role within the innovation ecosystem, including:

- Appointing a dedicated Innovation Scouting & Ecosystem Lead, who is responsible for evaluating new ideas, forging partnerships, and scaling innovative solutions.
- Hosting open innovation sessions that bring together start-ups, universities, and community groups to encourage diverse collaboration.
- Co-leading the "Innovation Highways" initiative, which aligns challenge areas across all gas networks and identifies high-impact opportunities; and
- Supporting external project delivery by facilitating consortiums to execute projects, while offering the required system context and pathways to deployment.

175 SGN suggest that Ofgem clearly define the role of networks as the link between policy, technology, and day-to-day operations, and address the following points when setting out responsibilities:

- Who is responsible for long-term portfolio ownership?
- How will funding and Intellectual Property risks be managed between partners?
- What capabilities and accountabilities should networks build to act as "innovation integrators"?

176 Finally, SGN believe clearer expectations must be paired with coordinated governance (e.g. through the UKRI, Future Energy Networks, Energy Networks Association, SIF steering groups, or strategic innovation panels) to ensure learning is shared and duplicated effort avoided.

OVQ34. Do you agree with our approach to improving reporting of deployed SIF projects and lessons learned post-funding?

177 SGN agrees better reporting after SIF projects have finished is important as it helps make sure everyone is open about what was done, shares what was learned, and builds up evidence that innovation works across the sector.

178 SGN see the value in reporting about SIF projects in a clear and consistent way, as it shows the public what has been achieved and helps everyone learn from each other.

179 SGN already report through the Innovation Measurement Framework and SGN's yearly Innovation Summaries. SGN plan to improve this by adding clear examples that show what happened, what was challenging, and what was learned, so that others can use this information easily.

180 To ensure this is effective, SGN recommend:

- Reporting requirements remain proportionate and clearly differentiated by TRL stage and scale
- Templates are co-developed with networks to ensure reporting is targeted, avoids duplication, and adds value

- The process is linked to future decision-making, including guidance for deployment or policy adoption pathways

181 SGN welcome further collaboration with Ofgem and the Energy Networks Association to build a balanced reporting framework that supports learning without overburdening delivery teams.

Chapter 10 Cyber Resilience

10.1 Background

OVQ35. Do you agree with our proposals for the Cyber Resilience re-opener?

182 We agree with the proposals for a cyber resilience reopener in principle.

183 We recommend that the timing of the reopener is changed, and that the reopener window should be open a year in advance. To support effective delivery in the areas of IT and Cyber security, we strongly believe that a re-opener scheduled for January 2028 would be more appropriate. This would provide the necessary lead-in to plan, respond, and implement the outcomes with sufficient strategic support within the GD3 price control period.

184 It is our view that the proposed timing of the re-opener in 2029 would not allow sufficient time to respond adequately and could conflict with preparations for GD4, whilst leaving only a short window in the final year of GD3 to action and deliver agreed projects.

Chapter 11 Data and Digitalisation

11.1 Digitalisation licence condition

OVQ36. Do you agree with our position of not changing the Digitalisation licence condition?

185 SGN disagrees with the position of not changing the digitalisation licence condition.

186 It is our view that the digitalisation licence condition places unreasonable requirements on licensees through the requirement *“The licensee must, when conducting work that involves working with or making decisions about the use of Energy System Data, **must use its best endeavours** to act in accordance with Data Best Practice Guidance.”*⁵⁰

187 From a legal perspective, the only incontrovertible limit of a “best endeavours” obligation is that the actions should not ruin the duty holder or be in utter disregard of its shareholders. As such, a best endeavours obligation conveys the expectation that compliance should be sought largely irrespective of costs or proportionality. Consequently, this standard is rarely used in a wider contractual context. This limit also means that best endeavours are particularly inappropriate in a regulatory context, where the funds available to achieve each regulatory aim are determined by the regulator and are expected to be used in an efficient manner.

188 As a result, we would suggest changing the licence to;

189 *“The licensee must, when conducting work that involves working with or making decisions about the use of Energy System Data, **must use reasonable endeavours** to act in accordance with Data Best Practice Guidance.”*

190 Secondly, the licence enshrines the production of both a digitalisation action plan and a digitalisation strategy. We would question whether there is value in having two documents and whether there may be benefits in align them.

⁵⁰ Scotland Special Conditions, Special Condition 9.5 Digitalisation, para 9.5.13

11.2 DSI Licence condition

OVQ37. Do you agree with our proposed approach to the DSI licence condition?

191 SGN disagrees with Ofgem's consultation position regarding the DSI licence condition. It is our view that this can be accommodated sufficiently under the digitalisation licence condition and governance document and that having a separate licence condition increases the risk for duplication, confusion and increases the risk to the licensee. It is not clear what this licence term will contribute that is not already or cannot be governed by the Data Best Practice Guidance and DSAP Guidance that is already established in the digitalisation licence term.

192 We also note that an additional licence is underway, Standard Special Condition D23, Regional Energy Strategic Plan⁵¹ that places obligations on networks for the provision of intelligence to the Independent System Operator and Planner (ISOP) who is also known as the National Energy System Operator (NESO) that would appear to put appropriate provisions in place.

11.3 Digitalisation re-opener

OVQ38. Do you agree with our proposed design of the Digitalisation re-opener?

193 SGN agrees with Ofgem's proposal for a Digitalisation re-opener to enable SGN to sustainably participate in and adopt the resultant technical and data standards, solutions, use cases and regulatory mandates that will continue to be developed during RIIO-GD3.

194 However, we disagree with the proposed timing of the reopener and the materiality threshold applied.

195 Firstly, the proposed timing of the re-opener at a mid-way point and the current required participation with industry initiatives such as the Data Sharing Infrastructure is a significant industry programme of work with no current visibility on a funding mechanism for delivery. Given the pace of change in expectations and the uncertainty in requirements it is important to have two reopener windows the first in Jan 2027 and the second in Jan 2029. We note that the consultation document refers to July, our preference would be to have consistency in the time of year for reopener windows.

196 Secondly, applying a materiality threshold could preclude networks applying for the re-opener in support of the further investments required as the energy sector matures its technological, policy and digital developments in pursuit of Net Zero throughout GD3. The materiality threshold should be lifted for this reopener.

⁵¹ [Regional Energy Strategic Plan Policy Consultation on licence modifications and guidance document, July 2025](#)