

Ofgem
Electricity Network Distribution Team
10 South Colonnade
Canary Wharf
London,
E14 4PU

3 December 2025

ED3 Sector Specific Methodology Consultation

Dear Ofgem,

Thank you for the opportunity to respond to the ED3 Sector Specific Methodology Consultation. This response is on behalf of National Gas Transmission. We welcome the direction of travel set out and appreciate the comprehensive approach being taken to support the energy transition, network resilience, and consumer value in the next electricity distribution price control.

Rather than responding to the specific consultation questions, we wish to set out several key points and perspectives that we believe are important for Ofgem's consideration as the ED3 framework is finalised. Our comments reflect our experience as the operator of Britain's gas transmission network and our commitment to supporting a whole-system, consumer-focused, and resilient energy future.

Whole-System Strategic Planning

We strongly support Ofgem's move towards long-term, integrated network planning, underpinned by the introduction of Regional Energy Strategic Plans (RESPs) and a 25-year planning horizon for DNOs. This approach is essential to deliver the scale and pace of investment required for decarbonisation and to ensure that electricity and gas networks can work together efficiently.

We encourage Ofgem to ensure that the RESP process is developed in a way that enables genuine cross-sector coordination, including with gas and hydrogen networks. As the energy system becomes increasingly integrated, it is vital that planning frameworks, data, and investment signals are aligned across all sectors to avoid unintended consequences and to maximise consumer value.

We note the potential misalignment between the three-year cycle for NESO's Strategic Energy Plan and the timing of price control periods. For example, the first Centralised Strategic Network Plan (CSNP) and RESP will be published in 2027, while the next is due in 2030, the year after the expected RIIO-4 Business Plan submissions for Gas Transmission, Electricity Transmission and Gas Distribution networks. This could create challenges for aligning business plans with strategic priorities. We encourage Ofgem to consider mechanisms that allow for greater flexibility or interim updates to business plans, so that network planning and regulatory cycles remain closely aligned.

Connections Reform and Customer Experience

We welcome the focus on reforming connections processes and incentives, particularly the move towards more tailored connection categories and the emphasis on supporting low carbon technology (LCT) connections. These reforms will be critical to enabling the rapid uptake of new technologies and supporting the decarbonisation of heat and transport.

Resilience and Climate Adaptation

We support the enhanced focus on resilience and climate adaptation, including the introduction of climate resilience metrics, stress testing, and a dedicated resilience reopener. These measures are essential to ensure that networks remain robust in the face of increasing climate risks and changing patterns of demand.

We encourage Ofgem to consider how similar frameworks and expectations might be developed for gas transmission, recognising the shared challenges and interdependencies between networks.

Supply Chain and Workforce

We support the requirement for DNOs to develop ten-year delivery strategies and to provide annual reporting on supply chain and workforce metrics. The challenges of skills, equipment, and delivery risk are common across energy networks, and a coordinated approach will be vital to ensure timely and efficient delivery.

Digitalisation and Data

We welcome the emphasis on digitalisation, data quality, and interoperability. High-quality, accessible data and digital tools are fundamental to enabling whole-system optimisation and efficient investment. We support the requirement for DNOs to participate in shared digital infrastructure and to report on digital outcomes. We recommend that Ofgem continues to drive alignment in digital and data standards across all energy networks, supporting the development of a truly integrated and flexible energy system.

Flexibility and Innovation

We note the continued support for innovation and the recognition of the need for faster deployment and sector-wide learning. As the system becomes more dynamic and decentralised, it will be important to ensure that regulatory frameworks incentivise the right balance between network build and the use of flexibility services, while maintaining a focus on long-term consumer value.

Harnessing innovation is fundamental for the sector to respond proactively to emerging challenges, integrate cross-sector solutions, deliver enhanced value to consumers and support the transition to a flexible, integrated energy system.

Regulatory Flexibility and Cross-Sector Coordination

It is essential that the regulatory framework remains adaptable to accommodate evolving government thinking on the future of gas and policies on cost recovery. We recommend that Ofgem maintains flexibility in its framework to respond to such developments, ensuring that networks can adapt to new policy directions without unnecessary delay. Furthermore, we reiterate the importance of aligning strategic energy planning cycles with regulatory periods, as misalignment could hinder effective delivery of whole-system objectives.

Financial framework

We welcome Ofgem's continued focus on a stable and predictable financial framework, robust financeability and investability assessments, and the enhanced financial resilience measures already included for networks subject to the RII0-3 framework. We support the alignment of methodologies across sectors where appropriate, and encourage Ofgem to ensure that changes to depreciation policy, cost of capital, and reporting requirements are proportionate, support ongoing investment and reach the appropriate balance between consumer interests and allowing networks to set financing strategies that attract investment at an efficient cost. We also support continued transparency and improvements to financial modelling, provided these are implemented in a way that minimises unnecessary administrative burden. In its investability assessment, Ofgem should consider additional evidence to ensure risks facing the sector are adequately reflected in the allowed return. Evidence presented by a range of cross checks indicates that risk is not adequately reflected solely in the proposed CAPM approach.

Inflation

We note Ofgem's consideration of the RPI-CPIH wedge and the potential adjustment based on the OBR's October 2024 assessment. We would like to reiterate the following points, as set out in our previous submissions and supported by independent analysis (Oxera, November 2024):

- The historical evolution of the CPI-CPIH wedge demonstrates significant volatility, making it difficult to provide a stable and predictable estimate on a forward-looking basis. Over regulatory time horizons, the average wedge has been highly variable with no clear long-term trend.
- The OBR's quantified long-term CPI-CPIH wedge, published in October 2024, is untested and lacks the track record and evidential basis needed to support regulatory application.
- The underlying drivers of the long-term CPIH estimate are conceptually complex and challenging to project reliably. Introducing a CPI-CPIH wedge into the regulatory framework would add complexity and risk.

We support the approach proposed in the GT3 SSMD, that is to utilise OBR forecasts of RPI and CPIH to define the wedge until convergence of the two indices in February 2030, enabling the wedge applied to be consistent, avoiding uncertainty and not undermining predictability. We refer Ofgem to our response to the GT3 Draft Determination, which sets out our position and supporting evidence in full.¹

¹ [NGT_DD03_Overview_doc_response_redacted.pdf](#)

Ongoing Efficiency

We believe that the threshold of an appropriate, evidence-based level of ongoing efficiency should be 0.5% per year.

We refer Ofgem to our previous detailed analysis and responses, including our response to the GT3 Draft Determination², which sets out our position and supporting evidence in full.

Business Rates and Pass-Through Mechanism

We note Ofgem's consideration of moving certain pass-through costs, such as business rates, into the ex ante baseline with a TIM, drawing on regulatory precedent from the water sector. While we recognise the intent to incentivise cost efficiency, we believe this approach is not appropriate for business rates within ED3.

Under the previous price control, the pass-through mechanism for business rates was already conditional on licensees demonstrating that they had taken reasonable steps to negotiate a reduced settlement. We have consistently met this requirement. However, despite these efforts, the outcome of business rates negotiations remains largely outside our control, being driven by external valuation processes and government policy.

Introducing a TIM incentive would therefore risk penalising or rewarding DNOs for factors beyond their influence. In our view, this does not align with the principle of fair and proportionate regulation. We strongly recommend retaining the existing pass-through approach, which ensures that consumers are protected by making sure licensees try to influence outcomes but recognising that these are ultimately decided upon externally and are therefore beyond the control of licensees.

Conclusion

We welcome the overall direction set out in the ED3 Sector Specific Methodology Consultation and look forward to continued engagement with Ofgem and industry stakeholders as the framework is finalised. We are committed to supporting a whole-system approach that delivers a secure, affordable, and decarbonised energy future for all consumers.

Should you have any questions or wish to discuss our response in more detail, please contact dave.nanda@nationalgas.com.

Yours sincerely



Dave Nanda
Head of Future Frameworks

² [NGT_DD03_Overview_doc_response_redacted.pdf](#)