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16<sup>th</sup> January 2026

Dear James

**RIIO-3 Statutory Consultation on the RIIO-3 Licence Drafting modifications**

Thank you for the opportunity to respond to the Statutory Consultation on the RIIO-3 Licence Drafting modifications. Please find attached our completed response forms, which set out our detailed comments on the licence conditions and associated documents included in this consultation.

For clarity, the attached response document uses the following colour coding:

- **Red** – Material concerns and/or drafting that does not fully reflect the Final Determinations policy intent.
- **Amber** – Drafting errors, omissions, or misalignments that may affect clarity, intent or enforceability.
- **Green** – Minor drafting errors or non-material amendments (e.g., formatting).

We acknowledge the improvements made since the initial licence consultation and welcome the steps taken to address issues raised previously, which reflect constructive engagement with stakeholder feedback.

Notwithstanding that progress, several substantive matters remain. In our view, these areas require further clarification or refinement to ensure the final licence drafting is fully aligned with the RIIO-3 framework and provides the certainty necessary for effective implementation. Addressing these points ahead of your final licence decision will help avoid ambiguity in interpretation and ensure obligations are clear, proportionate, and deliverable from Day 1.

We remain supportive of Ofgem's objectives for RIIO-3. Our intention is to continue working collaboratively with Ofgem to finalise a licence that is robust, transparent, and capable of delivering the right outcomes for customers and the wider energy system. We set out the key areas requiring further attention in the following pages. Additional detail, including further examples and specific drafting suggestions, are provided in the attached appendices.

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### Point of note

Please ensure that all values and figures are thoroughly reviewed and updated as necessary, in accordance with the final ex-ante base revenue recalculated following Totex Erratum process.

### Errors within formulae or values in the licence drafting:

There are several formulae in the licence drafting that contain errors and require correction. We provide a brief explanation below, but a full explanation and proposal for corrected formulae (where necessary) are provided in our response template.

- **Special Condition 3.18 - (Safety disconnections volume driver):** There is an error in the formula in paragraph 3.18.3 where an “addition” is incorrectly replaced with a “multiplication”. The impact of this is that the GDVDt term (safety disconnection adjustment term) is being incorrectly calculated. We also highlight that the Request for Information, which Ofgem published between August 2025 and October 2025, has been used to calculate applicable unit rates for individual GDNs. Within our response, we highlight how this has resulted in an inequitable position for NGN, and should Ofgem determine that it will use the RFI to determine the appropriate unit volumes, then it should amend the chosen date to ensure that all applicable costs are included.
- **Special Condition 4.6 - 7- and 28-day repair standards output delivery incentive (ODI):** This licence condition introduces the ODI proposed by NGN as part of our RIIO-3 business plan submission. Whilst we had proposed that the ODI should allow for both penalty and reward to encourage good performance, Ofgem determined that this ODI should be a penalty only. However, currently the formulae outlined in this condition are incorrect and may result in a financial reward rather than a penalty, which does not align with the signalled policy intent set out by Ofgem in the Draft and Final Determinations to create a penalty-only ODI in this area.
- **Special Condition 3.2 - Cyber resilience Price Control Deliverable, cyber resilience Re-opener, and use it or lose it:** The formulae set out in this condition appear to suggest that the values for the PCD, re-opener and UIOLI can be reduced, but not increased. We do not consider that this is the intended outcome and have suggested formulae corrections.

### Other drafting concerns:

- The definition of Local Area Plan is incorrect as it states that plans are developed “through which a range of stakeholders including the other Network Licensees and local authorities agree on the optimal long-term energy solutions for an area”. The definition requires an amendment to reflect that it is in the sole control of the Local Authority.

### Areas of objection:

- We have observed that Ofgem plans to shorten the consultation period for issuing directions covered by the licence, and this adjustment appears in several licence conditions. Licensees were not informed about this earlier, so its inclusion at this stage of the statutory consultation was unexpected. We object to the Consultation period for amendments under the licence being reduced from “not less than 28 days” to “up to 28 days” as without any materiality threshold, this has the potential to introduce difficulties for affected parties to follow internal governance processes and timelines, which risks unintended consequences.

- While the following points are consistent with Ofgem’s Final Determination, we note our disagreement here for completeness. We understand that if not addressed through the erratum and consultation processes, and subsequently Ofgem’s final Licence Modification decision, NGN can exercise its right to appeal this decision. This statement does not restrict our discretion to include or exclude them or include other concerns in any such appeal.
  - **Ongoing Efficiency:** Ofgem have set ongoing efficiency at 1% p.a. and erred in arriving at this figure. Notably, Ofgem did not account for or engage with all the available evidence that was presented to it by networks in their responses to the Draft Determination. NGN urges Ofgem to reconsider its assessment of the ongoing efficiency challenge prior to finalising its licence modification decision.
  - **IT&T Disallowances:** NGN has received an IT&T disallowance of 25%, despite having the lowest IT&T costs per head of the networks on a historical and forecast basis. NGN submitted an efficient programme of work, reflecting its historic efficient delivery to ensure the continued efficient use of customer money. Ofgem has failed to justify these disallowances, which jeopardise our ability to capture the benefits of IT&T developments, such as Artificial Intelligence, and our ability to manage evolving cyber risks and ensure continued compliance with relevant legislation, such as the Network and Information Systems Regulations 2018 (NIS Regulations or NISR).
  - **Tier 3 Disallowances:** The decision to disallow NGN’s entire Tier 3 REPEX based on the CBA payback cut-off is an error and is inconsistent with Ofgem’s acceptance of NGN’s Engineering and Safety case on Tier 3 and in contradiction to recent high-profile incidents linked to Tier 3 and HSE interest. NGN’s payback for this programme specifically was 12 years (our cumulative non-mandatory CBA, including Tier 3, was 10 years), marginally less than the 11-year payback and compliant as a non-mandatory programme overall. Therefore, a 100% disallowance is manifestly disproportionate, given the safety-critical nature of this workload, and it jeopardises our ability to effectively manage cumulative risk under Pipeline Safety Regulations 13A.
  - **Low NOx Preheating sites:** Ofgem has disallowed 4 Low NOx Preheating sites at Final Determination, despite accepting a need to comply with the Medium Plant Combustion Directive and therefore the need for intervention. Ofgem has suggested via NGN FDQ 011 that derating the burners is possible at these sites rather than the replacements requested. However, this is not a proven option to manage this material risk and no funding for these alternatives was included in the FD.
  - **Streetworks Exclusions:** Ofgem partially addressed the manifest inconsistencies in streetworks exclusions between networks through its remedies applied at FD compared to DD. However, significant disparities in streetworks exclusions as a proportion of Totex remain, which cannot wholly be explained by differences in geography and workload between similar networks. It suggests that significant inconsistencies in interpretation and application of streetworks exclusions remain, which continue to unfairly affect the benchmarking of all networks.

- **NARM Framework:** We continue to have significant concerns with the increasing complexity and burden of NARM reporting and of the increasing uncertainty over targets and allowances introduced by the proposed in-period adjustments because of delivery deviations. We consider that risk trading in the interests of customers is being discouraged by asset-level UCR thresholds. NGN consider it is better to retain network level targets and to hold networks to account for the delivery of their entire programme at closeout. In addition, we consider that the NARM Handbook is still lacking in clarity in some areas, which we have raised in our response. We urge further engagement to develop the Handbook further and to explore NARM simplifications.
- **Revenue Profiling adjustments:** The RIIO-GD3 PCFM published on 16 December 2025 contained multiple errors and incorrect inputs, resulting in erroneous revenue calculation. NGN has submitted an updated version of PCFM on 05 January 2026, which was based on Ofgem's FD Totex RFI file ver. 2 released on 17 December 2025. NGN's submission contained several formulae corrections and input value updates, which resulted in much lower negative revenue profiling values compared with those published by Ofgem. We understand that, following the final Totex allowance run, an updated RFI file will be released in the week commencing 19 January 2026, which may result in a further recalculation of NGN's revenue. We assume that the Allowed Revenue, particularly for 2026/27, will not be lower than that submitted by NGN on 5 January 2026, and we request confirmation from Ofgem as soon as possible.

We trust that the points raised in our response will assist in refining the final licence drafting ahead of implementation. We remain committed to constructive engagement as the RIIO-3 framework is finalised and are available to discuss any of the matters highlighted in more detail should that be helpful.

Yours sincerely,

Greg Dodd (via email)

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