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National Gas Transmission plc's response to Ofgem's Statutory Consultation on the RIIO-3 Licence Drafting modifications

Dear Steve

We welcome the opportunity to respond to Ofgem's Statutory Consultation on the RIIO-3 Licence Drafting modifications published on 16 December 2025. This is the response on behalf of National Gas Transmission plc.

The following 8 appendices accompany this response:

- Appendix 1 is the Executive Summary of our response;
- Appendix 2 in respect of the Standard Conditions;
- Appendix 3 in respect of the Standard Special Conditions;
- Appendix 4 in respect of the Special Conditions;
- Appendix 5 in respect of Price Control Financial Instruments;
- Appendix 6 in respect of the NARM Handbook and Network Asset Risk Workbook;
- Appendix 7 in respect of the Associated Documents; and
- Appendix 8 details process issues.

We have provided extensive drafting comments in the appendices to this response. These appendices highlight a significant number of errors in policy and drafting issues in the licence, the Price Control Financial Instruments and the Associated Documents that should be corrected prior to the RIIO-3 licence modification direction.

We would welcome a discussion with Ofgem on our response ahead of its publication of the RIIO-3 licence modification direction. For queries in relation to our consultation response please contact Lynette Norton (lynette.norton1@nationalgas.com).

Yours sincerely



Emily Clark

Chief Strategy and Regulation Officer, National Gas

Appendix 1: Executive summary

Introduction

- 1.1. This is the executive summary of National Gas Transmission plc's ("**NGT**") response to Ofgem's Statutory Consultation on the RIIO-3 Licence Drafting modifications published on 16 December 2025 ("**Statutory Consultation**").
- 1.2. We have engaged fully in Ofgem's licence drafting working groups since September 2024 and have provided extensive drafting comments throughout that process and also in response to the RIIO-3 initial licence consultation published in July 2025 ("**Initial Consultation**"). In our response to that consultation, we highlighted that there were a significant number of areas where material issues remained unclear, unresolved or were still under development. We outlined proposed remedies in respect of each.
- 1.3. The drafting accompanying the Statutory Consultation still contains a significant number of errors and drafting issues that must be corrected. In this executive summary we set out key areas of concern covering policy decisions, drafting errors and process issues. On the understanding that Ofgem intends to direct the licence modifications on 3 February 2026, we would urge Ofgem to engage with NGT on the issues identified and make corrections prior to that direction. We would also welcome Ofgem's consideration of the process issues we have raised during engagement on the regulatory instruments and hope these insights can help inform and strengthen future drafting processes.

Policy decisions

- 1.4. We welcome Ofgem's upfront funding of £3.2bn in totex allowances (up £0.7bn from its RIIO-3 Draft Determinations ("**Draft Determinations**") but have concerns about the way in which it has reached some of its policy conclusions and how these will impact NGT's RIIO-3 licence.
- 1.5. We summarise below our key concerns with regulatory instrument drafting and policy conclusions. Further detail is set out in Appendices 4 and 5.

Ongoing Efficiency challenge (Appendix 4)

- 1.6. The 1% Ongoing Efficiency ("**OE**") challenge is an error. Among other errors, Ofgem's decision:
 - (a) ignores or dismisses the long-term structural productivity challenge in the UK;
 - (b) does not reflect the latest productivity forecasts from the Office of Budgetary Responsibility ("**OBR**") or appropriately weight recent productivity outturn data; and
 - (c) rests unreasonably on Ofgem's unevidenced assumption that energy network companies can systematically outperform the economy.
- 1.7. Ofgem has failed to give proper regard to its principal objective to protect the interests of existing and future consumers in relation to gas conveyed through pipes under section 4AA of the Gas Act 1986, or if it did, Ofgem failed to give appropriate weight to it. Further, Ofgem

has not given regard to the performance of its duties under section 4AA of the Gas Act 1986. In particular it has failed to promote efficiency and economy on NGT's part as required under section 4AA(5)(a).

- 1.8. NGT, alongside other networks, is continuing to assess next steps on this matter.

Ongoing Efficiency – application to uncertainty mechanism allowances (Appendix 4)

- 1.9. We agree with Ofgem that where costs have already been incurred, OE should not be applied retrospectively. However, NGT disagrees with Ofgem's conclusion that the application of OE to re-opener uncertainty mechanism submissions should be considered on a case-by-case basis. This approach creates regulatory uncertainty, and it is not clear that Ofgem has given proper regard to the performance of its duties under section 4AA of the Gas Act 1986.
- 1.10. Ofgem should engage with NGT prior to the start of RIIO-3 to establish clear principles for when OE should and should not apply. For example, where costs have been tendered and are no longer subject to significant variation, OE should not be applied irrespective of whether these have already been incurred or will be spent in the future.

Risk and contingency (Appendix 4)

- 1.11. As RIIO-3 will involve a significant proportion of funding delivered through re-openers, it is essential for both customers and NGT to have transparency on how allowances will be determined, including the approach to setting risk and contingency allowances.
- 1.12. NGT regards Ofgem's two-stage reduction to its submitted risk and contingency allowances as an error. In reaching its conclusion, Ofgem has failed to have regard to its principal objective to protect the interests of existing and future consumers in relation to gas conveyed through pipes under section 4AA of the Gas Act 1986, or if it did, Ofgem failed to give proper weight to it. Ofgem has concluded that it is appropriate to:
- (a) proportionately adjust down all submitted values by 50% "*to preserve National Gas' differential risk-scoring process*"¹; and then
 - (b) apply a cap of 10% on risk and contingency allowances submitted.
- 1.13. This approach is not supported by evidence, does not give appropriate weight to relevant factors including project maturity, complexity, criticality and costs, and does not follow industry standards. As such, Ofgem's policy decision will not result in efficient funding for a safe and reliable network.
- 1.14. As regards the position on re-openers, we request that Ofgem includes a paragraph in a regulatory instrument with a detailed explanation of the methodology for calculating risk and contingency within the re-opener mechanism.

¹ RIIO-3 Final Determinations – National Gas Transmission, Table entitled Summary of Final Determinations decision, page 90

- 1.15. More generally, Ofgem should explain the rationale underpinning its position on re-openers at RIIO-3 Final Determinations (“**Final Determinations**”) within its RIIO-3 licence modification conclusions document and commit to developing a comprehensive, collaboratively designed process for re-openers. We would welcome the opportunity to assist Ofgem in shaping this process.

Re-opener cost forecasting (Appendix 4)

- 1.16. Ofgem has stated that it will reject re-opener requests if it is not confident that there has been rigorous internal challenge by NGT². However, Ofgem has provided no detail or criteria explaining how NGT can demonstrate that sufficient challenge, verification and benchmarking has occurred.
- 1.17. We request that Ofgem:
- (a) explains the rationale underlying its Final Determinations position on re-openers; and
 - (b) develops, with NGT, a comprehensive, collaboratively designed process for re-openers.

Cost assessment methodology (Appendix 4)

- 1.18. The approach Ofgem has adopted in relation to the finalisation of the cost assessment methodology for NGT is fundamentally different to that of gas and electricity distribution and electricity transmission networks. For those networks, discussion and agreement on the cost assessment methodology is built into the sector methodology proposals ahead of business plan submissions. NGT considers that Ofgem should adopt the same upfront agreement of the assessment methodologies as part of the sector methodology proposals.

Cost of equity (Appendix 5)

- 1.19. The cost of equity for the RIIO-3 regulatory framework is based on the Capital Asset Pricing Model (“**CAPM**”) components set out by Ofgem in the RIIO-3 – Final Determinations Finance Annex (“**FD Finance Annex**”). A range of cross checks are employed by Ofgem and networks to assess the cost of equity range and point estimate.
- 1.20. Ofgem stated in the FD Finance Annex that its Total Market Return (“**TMR**”) estimate used to calculate the cost of equity was not explicitly adjusted to reflect prevailing market conditions. Ofgem further stated that it did not consider the TMR estimate should incorporate an uplift to reflect higher market rates and indices. Networks submitted evidence that it would be appropriate to adjust TMR in line with the higher interest rates and gilt yields relevant for the RIIO-3 period.
- 1.21. Given Ofgem’s decision, we consider it reasonable to assume that Ofgem will continue to adopt a stable TMR approach in a lower interest rate and gilt yield environment.

² Final Determinations, paragraph 4.5

- 1.22. Ofgem concluded at Final Determinations that the cross checks it employed to assess the cost of equity range and point estimate supported its adoption of the mid-point of the CAPM generated range. No alternative cross check methodologies proposed by the networks were adopted. The methodologies networks included in evidence submitted alongside business plans consistently demonstrated that a higher cost of equity would align better with cross checks.
- 1.23. We consider that Ofgem has erred by not taking into account the evidence presented by networks. We will fully engage with the refresh of the UKRN guidance to regulators when setting their price control financial frameworks.

Base revenue forecasting penalty (Appendix 4)

- 1.24. Ofgem has concluded in its Final Determinations that a forecasting penalty would be applied to the base revenue where outturn deviates from forecast in excess of a fixed percentage threshold. NGT accepts the introduction of a forecasting penalty where the factors impacting base revenue are foreseeable and largely within NGT's control giving it a reasonable prospect of forecasting accurately. We remain concerned that this penalty will also apply to non-controllable costs which Ofgem has agreed include factors that are not foreseeable at the time of setting forecasts. Ofgem states that where factors that are not foreseeable result in a penalty, it will apply a penalty waiver. However, Ofgem offers no clarity on what it considers to be unforeseeable. The forecasting penalty will place risk on NGT for cost movements that are inherently difficult to predict and outside its control. This results in a mis-allocation of risk, with NGT potentially penalised for volatility it cannot reasonably manage.
- 1.25. Ofgem confirmed, in the FD Finance Annex, it would exclude the impact of inflation from the base revenue forecasting penalty. Ofgem confirmed that this exclusion would be implemented through a formulaic solution within the GT3 Price Control Financial Model ("PCFM") in time for Final Determinations. The proposed modifications have not achieved this, and Ofgem should action this prior to the publication of the RIIO-3 licence modification direction.
- 1.26. We request that Ofgem excludes all non-controllable elements of base revenue from the forecasting penalty. This will:
- (a) reduce the risk that NGT is penalised for cost movements that could not reasonably have been foreseen (and therefore built into forecasts); and
 - (b) reduce the regulatory burden on both networks and Ofgem caused by application of the penalty to non-controllable costs which then requires a waiver to remove these factors from the penalty assessment.

Revenue re-profiling (Appendix 4)

- 1.27. Ofgem reached its conclusion on the introduction of revenue re-profiling without consultation with networks, citing the reason as feedback from other stakeholders to the Draft Determinations. The reasons Ofgem has provided for the necessity of the introduction

of revenue re-profiling include concerns about recent divergences in gas charging statements and the possibility of instability in some markets due to a mismatch between the likely increase in network charges in April 2026 and projections previously provided by NESO.

- 1.28. NGT is willing to accept the introduction of revenue re-profiling into its licence. However, given the reasons provided by Ofgem (as outlined in Appendix 4) for incorporating changes into networks licences, it has not sufficiently justified the inclusion of NGT into the revenue re-profiling scheme.
- 1.29. Ofgem has confirmed that networks will be held NPV neutral to the re-profiling adjustment. The proposed modifications have not achieved this because the time value of money calculation applies Weighted Average Cost of Capital (“**WACC**”) instead of cost of equity. In aligning to regulatory gearing, networks will fund this revenue deferral through a reduced or delayed distribution to equity shareholders. Ofgem should action the application of cost of equity prior to the publication of the RIIO-3 licence modification direction.
- 1.30. We take this opportunity to again emphasise the importance of Ofgem following due process when making policy proposals and amendments, including carrying out a consultation and ensuring that adequate reasons are given when reaching conclusions.

Cyber resilience use it or lose it (Appendix 4)

- 1.31. REDACTED

Errors in the licence and Price Control Financial Instruments

- 1.32. The licence drafting accompanying the Statutory Consultation contains a significant number of errors and drafting issues. Further information is provided in Appendices 2 to 7. Errors within the PCFM (as set out in Appendix 5) result in an incorrect calculation of allowed revenue.
- 1.33. Ofgem should correct the errors and provide required clarification prior to the RIIO-3 licence modification directions.

Process concerns

- 1.34. NGT has raised, throughout engagement on the regulatory instruments, a significant number of process concerns. In carrying out any review of the RIIO-3 implementation process, we request that Ofgem takes account of these comments, and the process concerns that are set out in Appendix 8 of this document.

Insufficient reasons

1.35. Ofgem has an obligation under the Gas Act 1986 to set out, and provide reasons for, modifications to NGT's licence. The Statutory Consultation on RIIO-3 Licence Drafting modifications – reasons and effects document (the “**Reasons and Effects Document**”) fails to provide sufficient reasons for the changes Ofgem is proposing to NGT's licence. For example:

- (a) Ofgem has provided no detail or explanation about the changes to the definitions in Special Condition 1.1. In addition, no further detail is provided alongside the individual conditions affected by the definitions.
- (b) for Special Condition 5.6, no explanation of why Ofgem moved from its Draft Determination position and how Ofgem reached the proposed incentive targets has been provided.

Insufficient information

1.36. There is a general lack of clarity as to the extent of the consultation and whether this encompasses some or all Associated Documents³. Limited information is provided in the Reasons and Effects Document about why individual changes are being proposed to Associated Documents. Further, no detail is provided within the Reasons and Effects Document about how the self-modification procedure that Ofgem has incorporated into the licence, and which must be followed when Associated Documents are introduced and amended, will be followed.

1.37. There is an overall lack of structure and clarity regarding the RIIO-GT2 closeout mechanisms and the proposed introduction of new Special Condition 3.28 GT2/GT3 Crossover Adjustment.

Representations period of up to 28 days

1.38. Ofgem has proposed a change to the representation period where the self-modification procedure set out in the licence is to be utilised. The proposed change from not less than 28 days in RIIO-2 to up to 28 days in RIIO-3 is misaligned with the consultation period provided for in the Gas Act 1986, fetters Ofgem's discretion and could give rise to procedural unfairness to networks and other stakeholders.

1.39. Ofgem should retain not less than 28 days, as in RIIO-2.

Standard and Standard Special Conditions

1.40. Annex 1 of Ofgem's “Notice of statutory consultation on a proposal to modify the Special Conditions and Standard Special Conditions of the Gas Transporter licence” does not list NGT's SLCs and SSCs as due for amendment. NGT assume this is an oversight.

³ Associated Documents are documents created under the licence conditions that supplement those conditions and are subordinate to them.

- 1.41. NGT provided comments on all of its Standard and Standard Special Conditions in response to the Initial Consultation. Ofgem has marked proposed changes to any Standard and Standard Special Conditions that were not specifically included in the Initial Consultation as out of scope to resolve for the RIIO-3 licence.
- 1.42. We highlight that, in some instances, consequential amendments are required to these conditions as a result of changes being made elsewhere in the licence. These changes should be made as part of the RIIO-3 licence modification direction.
- 1.43. In addition, Ofgem should consider how it can incorporate the resolution of less fundamental, but nonetheless important issues, ahead of the next price control process.

Misalignment of regulatory instruments

- 1.44. NGT has identified misalignment within the licence itself and between licence conditions and the Price Control Financial Instruments. This is partly because Ofgem has prioritised standardisation between different licences rather than within NGT's licence. Ofgem should address any misalignment within NGT's regulatory instruments as a matter of priority and ahead of the publication of the RIIO-3 licence modification direction.

Appendix 2 : RIIO-3 Standard Conditions

Appendix 2a

2.1. The issues log for the Standard Conditions (“**SLC**”) is attached separately.

Appendix 2b

2.2. Ofgem has only consulted on SLC 4B as part of the Statutory Consultation. NGT’s comments on this condition and any consequential amendments required to SLC 1 (Definitions and Interpretation) are contained within the issues log (separate attachment, Appendix 2a – SLC Issues Log).

2.3. Ofgem has not proposed any changes to any other SLCs contained within NGT’s licence. Ahead of the next price control period, Ofgem should consider amendments to the following conditions:

SLC 1 Definitions and Interpretation

The definitions contained within SLC 1 (Definitions and Interpretation) as set out in Table A2.1 require early attention. However, there are other definitions that are not used within NGT’s SLCs or elsewhere in the licence that should be removed. We provided Ofgem with a list of these definitions in response to its Initial Consultation.

Table A2.1 : Definitions within SLC 1 requiring early attention

Reference	Comment	Suggested alternative drafting
"independent system"	This term is also defined in Standard Special Condition A3, but with minor differences such as referring to the licence rather than the licensee. We propose that the definitions are aligned.	means a pipe-line system in Great Britain to which this licence relates which includes relevant mains and which is not connected (directly or indirectly) by pipes to the main pipeline system of a relevant gas transporter;
"relevant year"	The definition references SLC 48 which is not contained within NGT's licence. We note that 'relevant year' is also defined within SLC 11, but this is not referenced.	for the purposes of SLC 3 (Payments by the Licensee to the Authority) only, has the meaning given in that condition; and for the purposes of SLC 11 (Agency) only, has the meaning given in that condition;
"specified amount"	The definition references SLC 48 which is not contained within NGT's licence.	for the purposes of SLC 7 (Provision of Information Relating to Gas Illegally Taken) only, has the meaning given in that condition;
"transportation arrangements"	This term is also defined in Standard Special Condition A3, but the definitions are not aligned. The conditions referenced in the definition in the SLCs are also not	-

	contained with NGT's licence. We propose that the definitions are aligned to that used in Standard Special Condition A3.	
References to SLC 4B	On multiple occasions, when referring to SLC 4B within the definitions, the title is stated as Connection Charging, etc. This should be amended to Connection Charging Methodology.	-

SLC 10 The Smart Energy Code

Ongoing correspondence with Ofgem indicates that there is scope to remove SLC 10 from NGT's licence. NGT would support this removal as it considers that this condition is only included in its licence as a consequence of historical organisational ownership and results in a requirement to fund with no benefit or influence over code contents. Further, as the smart metering mandate only applies in respect of non-domestic premises at which the measured annual consumption of gas is 732,000 kWh or less, NGT has no role to play in the Smart Metering rollout programme. This is reflected in the Smart Energy Code itself where the definition of "Gas Transporter" explicitly excludes the licence holder in respect of the National Transmission System.

SLC 14 Compliance with Core Industry Documents

SLC 14 ceased to have effect for NGT from 1 February 2019 pursuant to the following direction, https://www.ofgem.gov.uk/system/files/docs/2019/02/190201_ntsdirection2.pdf.

We consider that this condition should therefore be removed from NGT's licence.

SLC 15 Smart Metering – Matters Relating to Obtaining and Using Consumption Data

We consider SLC 15 can be removed from the NGT's licence as it relates to Smart Metering of Domestic Premises, which does not apply to NGT.

SLC 20 Payments in Relation to Standards of Performance

We consider SLC 20 can be removed from NGT's licence as the underlying regulations do not apply to NGT.

SLC 26 Smart Metering Systems and Provision of Information to the Secretary of State

We consider that if Ofgem removes SLC 10, SLC 26 should also be removed from NGT's licence as NGT would no longer be a signatory to the Smart Energy Code.

SLC 27 Adjustment of Amounts by Reference to the Retail Price Index

In November 2020, the government announced that RPI will be replaced by CPI and CPIH with RPI being phased out by 2030. Ofgem will need to accommodate this change within SLC 27 and any associated definitions.

SLC 45 Transportation Services Obligations - Undertaking from Ultimate Controller

Paragraph 3 includes an obligation to provide Ofgem with a schedule of undertakings on or before 31 July each year. NGT is also required to provide this information on or before 31 July each year as part of the Regulatory Reporting Process (“**RRP**”). As this appears to be duplication, it would be more efficient to remove this requirement from SLC 45, retaining it in relation to RRP only.

Appendix 3 : RIIO-3 Standard Special Conditions

Appendix 3a

3.1. The issues log for the Standard Special Conditions (“**SSC**”) is attached separately.

Appendix 3b

3.2. Ofgem has only consulted on the following SSCs within the Statutory Consultation:

- (a) Standard Special Licence Condition A28
- (b) Standard Special Licence Condition A37
- (c) Standard Special Licence Condition A38
- (d) Standard Special Licence Condition A39
- (e) Standard Special Licence Condition B6
- (f) Standard Special Licence Condition B7
- (g) Standard Special Licence Condition B8
- (h) Standard Special Licence Condition B9
- (i) Standard Special Licence Condition B10
- (j) Standard Special Licence Condition B11
- (k) Standard Special Licence Condition B12

3.3. NGT’s comments on these conditions and any consequential amendments required to SSC 3 (Definitions and Interpretation) are contained within the issues log (separate attachment, Appendix 3a – SSC Issues Log).

3.4. As part of its ongoing ringfence review, separate to this Statutory Consultation, Ofgem has proposed changes to SSCs A37, A38 and A39 (as well as other SSCs) in its Energy Networks Ring-fence Review consultation (“**Ring-fence Review**”) which opened on 12 November 2025 and closed on 15 January 2026. NGT has responded separately to the Ring-fence Review. We reiterate our comment in response to the Ring-fence Review that transparency and predictability are elements of the regulatory regime in the UK that investors value highly. It would be beneficial to both networks and Ofgem if Ofgem adopts a co-ordinated approach in considering responses to both this Statutory Consultation and the Ring-fence Review.

3.5. We agree with Ofgem’s proposal in the Reasons and Effects Document to remove the following conditions from NGT’s licence:

- (a) SSC B6 Application of Standard Special Condition B7, B8, B9, B10, B11 and B12
- (b) SSC B7 Provision of Meters
- (c) SSC B8 Provision of Terms
- (d) SSC B9 Non-discrimination in the Provision of Metering Activities
- (e) SSC B10 Provision of services for specific domestic customer groups
- (f) SSC B11 Arrangements for access to premises
- (g) SSC B12 Reporting on Performance

As a consequence of removing these conditions, Ofgem should reconsider on a case-by-case basis the necessity of metering references within NGT's licence.

- 3.6. Ofgem has not proposed any changes to any other SSCs contained within NGT's licence. Ahead of the next price control period, Ofgem should consider amendments to the following conditions:

SSC A3 Definitions and Interpretation

The definitions contained within SSC 3 (Definitions and Interpretation) as set out in Table A3.1 require early attention. However, there are other definitions that are not used within NGT's SSCs or elsewhere in its licence that should be removed. We provided Ofgem with a list of these definitions in response to its Initial Consultation.

Table A3.1 : Definitions within SSC A3 requiring early attention

Reference	Comment	Suggested alternative drafting
"Accurate Quotation"	This term is only used in the definition of 'Specified Information' in SSC A3. We consider that the definition of 'Specified Information' in SSC A3 can be deleted and as such this term can also be deleted as a consequential amendment.	Deletion of this term and associated definition.
"Diversion"	This term is only used in the definition of 'Specified Information' in SSC A3. We consider that the definition of 'Specified Information' in SSC A3 can be deleted and as such this term can also be deleted as a consequential amendment.	Deletion of this term and associated definition.
"legally binding decisions of the European Commission and/or the Agency"	The definition is missing key drafting that is included in the same definition in SLC 1. This definition should include the wording "for the Co-operation of Energy Regulators" after "and/or the Agency". Or alternatively the definition could cross refer back to the definition in SLC 1.	means any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators, but a binding decision does not include a decision that is not, or so much of a decision as is not, Retained EU Law;
"the Regulation"	As previously flagged to Ofgem through licence drafting working groups, the definition of Regulation requires updating to reference the European Union (Withdrawal) Act 2018.	-

"Specified Information"	The only mention of this term in NGT's SSC is in SSC A40 where 'Specified Information' is used but is defined differently. As such this definition in SSC A3 should be deleted.	Deletion of this term and associated definition.
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SSC A8 Emergency Services and Enquiry Service Obligations

In November 2020, the government announced that RPI will be phased out by 2030, being replaced by CPI and CPIH. Paragraph 9 of SSC A8 references a materials cost which should be adjusted "in accordance with Standard Condition 27 (Adjustment of Amounts by Reference to the Retail Price Index). Ofgem will need to accommodate the change to RPI within SSC A8.

SSC A16 Independence of the independent market for balancing

The definition of "energy balancing gas transporter" contains reference to Special Condition C6 (Independent Market for Balancing). Special Condition C6 is not included within NGT's licence and therefore this reference should be removed.

SSC A33 Restriction on Use of Certain Information and Independence of the Transportation Business

As a minimum, the definition of meter-related services business in paragraph 1 and paragraph 2(a) requires amending as both reference SSC D17 (Provision and Return of Meters) which is not included with NGT's licence. However, as previously raised in the licence drafting working group issues log, the drafting in SSC A33 requires reconsideration to determine whether the terms "meter-related services business" and "meter reading business" could now be removed.

SSC A40 Regulatory Instructions and Guidance (RIGS)

As a consequence of moving from the RIIO-2 to the RIIO-3 price control period, paragraph 9 requires correction to align to RIIO-3 price control period dates. On the same basis, the definition of Final Determinations within paragraph 20 which contains a reference to RIIO-2 requires amending to RIIO-3.

SSC A47 Charging of Gas Shippers - Domestic Infill Premises

We consider SSC A47 can be removed from NGT's licence as it is not applicable to NGT.

Notwithstanding our view that this condition should be removed, paragraph 2 references the use of RPI. In November 2020, the government announced that RPI will be phased out by 2030, being replaced by CPI and CPIH. Paragraph 1(a) of SSC A47 references the application of RPI. Ofgem will need to accommodate the change to RPI within SSC A47.

SSC A50 System Development Obligations

SSC A50 is effectively duplicated by the requirements of the Pipeline Safety Regulations 1996 (particularly notifications under sections 20-22). The Pipeline Safety Regulations 1996 post-dates the Gas Act 1986 by a decade and is more directly applicable while achieving the same aims. This duplication generates an additional administrative burden on NGT for no additional value.

We consider this condition can be removed from NGT's licence to eliminate duplication and unnecessary regulatory burden.

Appendix 4 : RIIO-3 Special Conditions

Appendix 4a

4.1. The issues log for the Special Conditions ('SpC') is attached separately.

Appendix 4b

- 4.2. Ofgem has consulted on amending all of NGT's SpCs. NGT's comments on this condition are contained within the issues log (separate attachment, Appendix 4a – SpC Issues Log).
- 4.3. We agree with Ofgem's proposal in the Reasons and Effects Document to remove the following conditions from NGT's licence:
- (a) SpC 3.3 Cyber resilience information technology Re-opener and Price Control Deliverable (CRIT_t and CRITRE_t)
 - (b) SpC 3.7 Non-operational IT Capex Re-opener and Price Control Deliverable (NOITRE_t)
 - (c) SpC 3.12 King's Lynn subsidence Re-opener and Price Control Deliverable (KLS_t and KLSRE_t)
 - (d) SpC 3.15 Asset health – non-lead assets Price Control Deliverable (NLA_t and NLA AH_t)
 - (e) SpC 4.3 Environmental scorecard output delivery incentive (ESI_t)
 - (f) SpC 7.2 Transportation owner legacy pass-through (LPT_t)
 - (g) SpC 7.5 Transportation owner legacy TRU term (LTRU_t)
 - (h) SpC 7.6 Close out of the RIIO-1 Network Outputs (NOCO_t)
 - (i) SpC 7.7 RIIO-GT1 Network Innovation Competition (NICF_t)
 - (j) SpC 7.8 Close out of the RIIO-1 GT1 stakeholder satisfaction output (SSCO_t)
 - (k) SpC 7.14 Close out of the RIIO-GT1 Entry Capacity and Exit Capacity Constraint Management incentive revenue (LCMIR_t)
 - (l) SpC 7.15 Close out of the RIIO-GT1 Constraint Management cost adjustment (LCMCA_t)
 - (m) SpC 7.16 Close out of the RIIO-GT1 Transportation Support Services adjustment (LTSS_t)
 - (n) SpC 8.2 Annual Iteration Process for the GT2 Price Control Financial Model
 - (o) SpC 9.16 Restriction of prices in respect of Tariff Capped Metering Activities

Key issues with Ofgem's RIIO-3 policy

Ongoing Efficiency challenge

- 4.4. OE is the improvement in cost efficiency (or productivity) that even the most efficient company in an industry can achieve. It arises from exogenous technological change through which inputs to production are combined to produce outputs more efficiently – giving rise either to more output for a given level of input, or less input for a given level of output. In formulating its RIIO-3 business plan, NGT proposed an OE adjustment of 0.5% per annum applied from 2026/27. This approach was supported by external evidence and

benchmarking against observed productivity data. This proposed OE adjustment resulted in a cost reduction within NGT's RIIO-3 business plan of £50m (2023/24 price base).

- 4.5. Ofgem has set an OE adjustment for NGT of 1% per annum, applied annually from 2024/25⁴. This is equivalent to a cost reduction of £164m (2023/24 price base).
- 4.6. Gas networks have consistently submitted evidence throughout the business plan submission and Draft Determination processes, notably in the form of research and reports produced by Economic Insight, that a 0.5% per annum rate is more reflective of forecast productivity for the economy as whole and sets an appropriate level of OE challenge for gas networks.
- 4.7. There is no reason to believe gas networks will systematically outperform the economy and the competitive benchmarks on which the 0.5% allowance proposal was based. In fact, as Economic Insight demonstrated in its first report⁵ and its supplementary report⁶, there is evidence to demonstrate this cannot be the case.
- 4.8. Given the OBR's recent downgrade of productivity forecasts, including for Total Factor Productivity ("TFP"), over the RIIO-3 period and in the medium-term, it is an error that the OE challenge set for networks is 1%. We note that the OBR's forecast of TFP remains below 1% for RIIO-3. Ofgem's conclusion is reflective of periods where higher productivity forecasts were available (forecasts that were subsequently not met).
- 4.9. Ofgem's approach is unreasonable. It has failed to give proper regard to its principal objective to protect the interests of existing and future consumers in relation to gas conveyed through pipes under section 4AA of the Gas Act 1986, or if it did, Ofgem failed to give appropriate weight to it. Further, Ofgem has not given regard to the performance of its duties under section 4AA of the Gas Act 1986. In particular, it has failed to promote efficiency and economy on NGT's part as required under section 4AA(5)(a). Whilst NGT has a high level of ambition to operate efficiently and drive continual cost savings, the nature of NGT's activities limits its scope for alternative operational solutions which can be applied to deliver the gas network requirements for RIIO-3. This, combined with the pressure on the sub-contractor market as a result of high investment programmes across utility companies, places limitations on possible cost reductions.
- 4.10. NGT, alongside other networks, is continuing to assess next steps on this matter.

Ongoing Efficiency – application to uncertainty mechanisms

- 4.11. Ofgem has determined that, for re-opener uncertainty mechanism applications, OE will be considered on a case-by-case basis⁷.

⁴ RIIO-3 Final Determination Overview Document, paragraph 8.20

⁵ Ongoing Efficiency for Gas Networks at RIIO-3 dated 13 May 2024

⁶ Further Evidence on OE for Gas Networks at RIIO-3 dated 11 October 2024

⁷ RIIO-3 Final Determination Overview Document, Chapter 6

- 4.12. NGT disagrees with this approach. Ofgem must establish clear principles now about when OE should and should not apply. Leaving this open to a case-by-case assessment is not appropriate as it results in regulatory uncertainty, and it is not clear that Ofgem has given proper regard to the performance of its duties under section 4AA of the Gas Act 1986.
- 4.13. Where re-openers are submitted and a significant part of the costs have already been incurred, OE should not be applied retrospectively, as acknowledged by Ofgem. The actual costs incurred by networks at the time of a submission will already reflect the efficiencies achieved through business activities and the associated procurement of activities via competitive tender. For NGT, the re-opener design and application windows in RIIO-3 are such that a large proportion of the cost will have been incurred before the re-opener submission and therefore we would not expect OE to be applied to these re-openers.
- 4.14. We expect Ofgem to take into account that cost submissions will factor in any general efficiencies the company has delivered through its price control. Caution needs to be given to applying further efficiencies, which may be significantly beyond the level networks can achieve when targeted to the very discrete scopes of work defined under the relevant re-opener uncertainty mechanism.
- 4.15. We agree with Ofgem's view that "...OE should only be applied to cost forecasts within re-openers, not costs already incurred at the point of submission"⁸. However, this approach should also be applied consistently to tendered costs, whether these have already been incurred or will be spent in the future, as these are also not subject to further variation.
- 4.16. The above principles should be agreed before the start of the price control and clarity provided in the licence or in the Re-opener Guidance and Application Requirements Document ("**Re-opener Guidance**").

Risk and Contingency

- 4.17. Risk uplift is the risk percentage applied to all cost estimates to allow for project delivery risks that may or may not occur. In NGT's RIIO-3 business plan, NGT included differentiated risk uplifts for projects based on their assessed risk profile – high, medium and low – reflecting engineering judgement and project complexity. This methodology differentiated uplifts using NGT's investment process (ND500) and 3C risk matrix (Criticality, Complexity, Cost) resulting in a proposal of 5 -10% for low risk, 10 -15% for medium risk and 15 -20%+ for high-risk projects. The aim of this approach was to ensure higher-risk projects received proportionate contingency funding, supporting resilience and compliance.

⁸ RIIO-3 Final Determinations Overview document, paragraph 6.23

4.18. Ofgem has concluded that it is appropriate to:

- (a) proportionately adjust down all submitted values by 50% “to preserve National Gas’ differential risk-scoring process”⁹; and then
- (b) apply a cap of 10% on risk and contingency allowances submitted.

4.19. Ofgem’s rationale is that:

- (a) risk and contingency allowances have been capped at 10% in line with RIIO-GT2; and
- (b) a simple cap would remove differentiation.

4.20. NGT considers that Ofgem’s reduction of values by 50% and the cap of 10% on risk and contingency allowances is an error. In reaching this conclusion, Ofgem has failed to have proper regard to its principal objective to protect the interests of existing and future consumers in relation to gas conveyed through pipes under section 4AA of the Gas Act 1986, or has failed to give appropriate weight to it.

4.21. As a result of Ofgem’s approach, high-risk projects that legitimately need ~15-20% contingency are funded at ~7.5-10%, and low-risk projects at ~2.5-5%. This is misaligned with best practice¹⁰ and historical evidence on UK major infrastructure projects (for example Crossrail, HS2) and RIIO-1/RIIO-2 gas projects (Feeder 9, Hatton Compressor) which required a 15-20% contingency for high-risk schemes.

4.22. Ofgem’s approach drives funding below the P50 confidence required by industry standards (e.g. HM Treasury Green Book, IPA and AACE) which will not result in efficient funding for a safe and reliable network.

4.23. Many of NGT’s projects have inherent legislative and safety-driven uncertainties that cannot be mitigated without appropriate levels of contingency funding. Ofgem’s proportionate reduction undermines our engineering-led assessment and does not reflect the operational realities of projects with significant uncertainty (for example, compressor overhauls and nitrogen sleeve remediation).

4.24. Ofgem has not provided any analysis that supports its approach of halving the risk and contingency allowances proposed by NGT. Ofgem has stated that retaining NGT’s proposed allowances for risk and contingency would “*not only undo regulatory precedent, but would also systematically bias arrangements in National Gas’ favour presenting additional cost without benefit to consumers*”¹¹.

4.25. Ofgem’s RIIO-2 Final Determinations did include a cap of 10% on risk and contingency. However, this cap did not follow industry standards and reasons for the inclusion of this cap were not explained at RIIO-2. Throughout RIIO-2, Ofgem has agreed to NGT’s requests

⁹ RIIO-3 Final Determinations – National Gas Transmission, Table entitled Summary of Final Determinations decision, page 90

¹⁰ HM Treasury Green Book states that early-stage projects often warrant 20-40%+ optimism bias uplifts; IPA Guidance advocates tapering contingency by stage, not by arbitrary cuts; and AACE standards notes classes 3-4 estimates typically need 10-30% contingency.

¹¹ RIIO-3 Final Determinations – National Gas Transmission, paragraph 5.36

for risk and contingency allowances of more than 10% for individual elements where overall requested allowances were less than 10%.

- 4.26. We also note an unexplained inconsistency with the approach Ofgem has adopted for National Grid Electricity Transmission (NGET). Risk and contingency allowances for NGET are capped at 10% for all unit costs / estimates instead of applying scaling (i.e. halving of risk) before capping as has been done for NGT. It is unclear why, and unreasonable that, Ofgem has adopted a different approach to risk and contingency for NGT and NGET.
- 4.27. Ofgem's approach is not supported by evidence, does not give appropriate weight to relevant factors including project maturity, complexity, criticality and costs, and does not follow industry standards. As such, Ofgem's policy decision will not result in efficient funding for a safe and reliable network.
- 4.28. As regards the position on re-openers, we request that Ofgem includes a paragraph in a regulatory instrument with a detailed explanation of the methodology for calculating risk and contingency within the re-opener mechanism.
- 4.29. More generally, Ofgem should explain the rationale underpinning its position on re-openers at Final Determinations within its RIIO-3 licence modification conclusions document and commit to developing a comprehensive, collaboratively designed process for re-openers. We would welcome the opportunity to assist with Ofgem in shaping this process.

Re-opener cost forecasting

- 4.30. Ofgem has stated that it will reject re-opener requests if it is not confident that there has been rigorous internal challenge by NGT¹². However, Ofgem has provided no detail or criteria explaining how NGT can demonstrate that sufficient challenge, verification and benchmarking has occurred.
- 4.31. In particular, NGT is concerned by:
- (a) the unsupported assumption that re-opener costs are inherently inefficient;
 - (b) the blanket policy that funding requests will be rejected unless benchmarking and verification is undertaken, with no detail on either of these requirements; and
 - (c) the need to provide line-by-line justifications for cost increases for any cost deviations beyond the Final Options Selection Report ("**FOSR**").
- 4.32. We request that Ofgem:
- (a) explains the rationale underlying its Final Determinations position on re-openers; and
 - (b) develops, with NGT, a comprehensive, collaboratively designed process to support Ofgem's decisions on re-openers.

¹² RIIO-3 Final Determinations – National Gas Transmission, paragraph 4.5

Cost assessment methodology

- 4.33. As part of Final Determinations, Ofgem set out that it sought to ensure the approach to cost assessment builds on regulatory precedent, is consistent with the wider GB energy networks sector and, where appropriate, utilises cost assessment tools that have been used in other regulated utility sectors.
- 4.34. The approach Ofgem has adopted in relation to the finalisation of the cost assessment methodology for NGT is fundamentally different to that of gas and electricity distribution and electricity transmission networks. For those networks, discussion and agreement on the cost assessment methodology is built into the sector methodology proposals ahead of business plan submissions and reduces the burden on the regulator and networks to provide additional information as part of the business plan review processes. NGT considers that Ofgem should adopt the same upfront agreement of the assessment methodologies as part of the sector methodology proposals for gas transmission.

Base revenue forecasting penalty

- 4.35. Ofgem set out in Final Determinations its conclusion that a forecasting penalty would be applied to the base revenue comprising the following revenue components:
- (a) fast money;
 - (b) RAV depreciation;
 - (c) return; and
 - (d) pass through.
- 4.36. A penalty is applicable where forecast base revenue deviates from outturn base revenue with thresholds of 6% for NGT TO and 12% for NGT SO.
- 4.37. As set out in our letter to Ofgem of 14 May 2025, NGT accepts the introduction of the forecasting penalty where the factors impacting base revenue are foreseeable and largely within NGT's control giving it a reasonable prospect of forecasting accurately. We recognise the need for Ofgem to have a means of discouraging the manipulation of cost forecasts which are controllable by licensees.
- 4.38. We agree with Ofgem's conclusion that there are factors that are not foreseeable at the time of setting forecasts. Ofgem states that where factors that are not foreseeable result in a penalty, it will apply a penalty waiver¹³. However, Ofgem offers no clarity on what it considers to be unforeseeable.
- 4.39. We remain concerned with the forecasting penalty being applied to non-controllable costs. NGT cannot be incentivised to provide better forecasting on costs that are heavily impacted by unforeseeable factors. We consider that the unforeseeable cost elements of base revenue include pass-through expenditure, allowances directed by Ofgem through an uncertainty mechanism and the impact of inflation on return.

¹³ FD Finance Annex, paragraph 12.85

- 4.40. The forecasting penalty will, therefore, place risk on NGT for cost movements that are inherently difficult to predict and outside its control. This results in a mis-allocation of risk, with NGT potentially penalised for volatility it cannot reasonably manage.
- 4.41. Ofgem confirmed, in the FD Finance Annex, it would exclude the impact of inflation from the base revenue forecasting penalty. Ofgem confirmed that this exclusion would be implemented through a formulaic solution within the PCFM in time for Final Determinations. The proposed modifications have not achieved this, and Ofgem should action this prior to the publication of the RIIO-3 licence modification direction.
- 4.42. We request that Ofgem excludes all non-controllable elements of base revenue from the forecasting penalty. This will:
- (a) reduce the risk that NGT will be penalised for cost movements that could not reasonably have been foreseen (and therefore built into forecasts); and
 - (b) reduce the regulatory burden on both networks and Ofgem caused by application of the penalty to non-controllable costs followed by a waiver to remove these factors from the penalty assessment.

Revenue re-profiling

- 4.43. Ofgem proposed a revenue re-profiling adjustment to defer a proportion of revenue in the early years of RIIO-3 via Gitlab on 17 November 2025. Seeking comments, this proposal suggested:
- (a) that a fixed amount of revenue would be deducted from calculated revenue in years 1 and 2 of the RIIO-3 price control; and
 - (b) the deductions, including a time value of money adjustment to maintain NPV neutrality, could then be reclaimed by licensees in years 4 and 5.
- 4.44. Subsequent correspondence clarified that, for NGT, the proposed revenue re-profiling adjustments would be £42m in 2026/27 and £21m in 2027/28. To compensate for the time value of money, Ofgem concluded WACC would be applied to the amount outstanding until its recovery in the latter years of RIIO-3.
- 4.45. Ofgem did not carry out a public consultation on a new policy following representations on its Draft Determination.
- 4.46. In correspondence from Ofgem on 2 December 2025, Ofgem stated that “*wider market stability is key and it’s essential we manage the transition into RIIO-3, not least given some of the very recent divergences we [have] seen in the gas charging statements*”. NGT is not aware of “*recent divergences ... in the gas charging statement*”. Ofgem has not raised an issue with charging statements for NGT and it can only assume that this relates to a different network.
- 4.47. In its RIIO-3 Final Determination Overview Document (“**FD Overview Document**”), Ofgem stated that it had “*received significant representations from suppliers... highlighting concerns about a potentially unreasonable mismatch between the likely increase in*

network charges in April 2026 and projections previously provided by NESO”¹⁴ which unless addressed “could create instability in some markets”. Ofgem concluded that there is “a consumer interest in further profiling (‘smoothing’) the forecast increase in network charges into RIIO-3 to protect wider market stability”¹⁴. NGT is willing to accept the policy amendments for RIIO-3. However, given the reasons provided by Ofgem for incorporating changes into networks licences we consider that Ofgem has not sufficiently justified the inclusion of NGT into the revenue re-profiling scheme. For example, Ofgem’s RIIO-3 Final Determinations – Impact Assessment shows that, pre-profiling, NGT charges over the course of the control period are largely flat with Ofgem stating that in terms of RIIO-3 Projected Price Control Revenue “GT, by contrast [to ET] remains largely unchanged compared to RIIO-2”¹⁵.

- 4.48. Ofgem has confirmed that networks will be held NPV neutral to the re-profiling adjustment. Assessed against the notional company financing structure (i.e. for NGT, gearing at 60%), networks will fund this revenue deferral through a reduced or delayed distribution to equity shareholders. Compensating networks for the time value of money using the WACC therefore under-compensates networks and shareholders for the funding of this revenue deferral and is not NPV neutral. Applying the allowed cost of equity, rather than WACC, will not deliver Ofgem’s objective of NPV neutrality and Ofgem should make this amendment prior to the publication of the RIIO-3 licence modification direction.
- 4.49. We take this opportunity to again emphasise the need for Ofgem to follow due process when making policy proposals and proposed policy amendments, including by carrying out proper consultation and ensuring that adequate reasons are given when reaching its conclusions.

Cyber resilience use it or lose it

- 4.50. REDACTED

¹⁴ RIIO-3 Final Determinations Overview Document, Executive Summary

¹⁵ RIIO-3 Final Determinations – Impact Assessment, paragraph 3.25

Errors within the licence

4.53. The SpCs accompanying the Statutory Consultation contain errors which result in an incorrect value of allowed revenue being calculated. These errors must be corrected prior to publication. Correcting the identified issues will not be controversial as these matters relate to the incorrect or imprecise implementation of the policies and decisions set out in the Final Determinations on which Ofgem has already consulted.

System operator external incentive revenue and costs

4.54. The calculation of the system operator incentive revenue and costs term ($SOIRC_t$) contains multiple errors. These are set out in the issues log for SpC 5.6 (System operator external incentives, revenues and costs) and summarised in Table A4.1.

Table A4.1 : Errors within the calculation of the $SOIRC_t$ term

Incentive (SpC 5.6)	Error	Resolution
Residual balancing incentive ($RBIR_t$)	The value of the sum of the total daily incentive payments is too low by a factor of 1,000,000.	Remove the 1,000,000 denominator in the equation to calculate $STIP_t$.
	The table used to calculate the daily price incentive payment contains a value of 0.001167667.	Correct value to 0.001166667.
	The table used to calculate the daily price incentive payment contains a value of 0.000281.	Correct value to 0.000281842.
Quality of demand forecasting incentive ($QDAIR_t$)	The target value of 6.79 mcm/d set out in Final Determinations is not enacted within the table used to calculate the value of $QDAIR_t$.	Calculation must reflect the target value set out in Final Determinations.
	Ofgem has confirmed (response to FDQ11) that the active range on incentive is incorrect in Final Determinations and requires correction to 3.79 mcm/d to 9.79 mcm/d.	Calculation must reflect the corrected range set out in FDQ11.
Maintenance incentive (MIR_t)	The Maintenance incentive revenue ($MCIR_t$) performance collar has not been enacted in line with Final Determinations. The multiplier of 0.07 in the equation to calculate $MCIR_t$ where the change days exceed the upper limit is incorrect.	The multiplier used to calculate $MCIR_t$ where the change days exceed the upper limit must be corrected to 0.05.

Carry-over Network Innovation Allowance

4.55. The purpose of SpC 5.3 (Carry-over Network Innovation Allowance term (CNIA_t)) is to extend the RIIO-2 NIA funding into RIIO-3. The algebra used to calculate the CNIA_t value instead results in a penalty. This should be corrected to provide funding for RIIO-2 projects which carry over into RIIO-3.

Errors within Final Determinations

4.56. Through its FDQ process, Ofgem has confirmed corrections are required to the position set out in Final Determinations. These must be enacted through the regulatory instruments. To date, the corrections shown in Table A4.2 have been confirmed. We are awaiting responses from Ofgem on FDQs and errors raised with Final Determinations.

If any further corrections are necessary, these should also be included within the regulatory instruments.

Table A4.2 : Corrections to Final Determinations to be enacted in the regulatory instruments

Correction to Final Determinations	RIIO-3 framework category	Amount (£m 2023/24 price base)	Impact on regulatory instruments
FDQ 10 Double count of the unit cost percentile reduction	Baseline Allowed NARM Expenditure	1.453232	SpC 3.1 Appendix 1 PCFM – Variant Allowances, Baseline Allowed NARM Expenditure
FDQ 4 Increase in volumes on ‘St Fergus Valve replacement (no actuator)’.	Baseline Allowed NARM Expenditure	1.835388	SpC 3.1 Appendix 1 PCFM – Variant Allowances, Baseline Allowed NARM Expenditure
FDQ 13 Incorrect adjustment to unit costs	Baseline Allowed NARM Expenditure	1.044593	SpC 3.1 Appendix 1 PCFM – Variant Allowances, Baseline Allowed NARM Expenditure
	Nitrogen sleeves baseline allowances	0.001397	SpC 3.17 Appendix 1, unredacted information that sits behind the redactions shown on the face of the licence

			PCFM – Variant Allowances, Nitrogen sleeves Price Control Deliverable (note that this category is currently not correctly included in the PCFM)
	Compressor acoustic building replacement price control deliverable	0.163909	SpC 3.24 Appendix 1 PCFM – Variant Allowances, CAB Price Control Deliverable (note that this category is currently not correctly included in the PCFM)
	Non variant allowances	0.097993	PCFM – Non-variant allowances, Non-variant allowed asset replacement capex
Ofgem has agreed that the GMP admin costs with pension schemes should be included in totex allowances	Non-variant allowed indirects (opex)	2.38	PCFM - Non-variant allowed indirects (opex)

Inconsistencies between the Price Control Financial instruments and the licence

- 4.57. The variant totex allowance categories as set out within Chapter 3 of the Special Conditions of the licence need to be mirrored in the GT3 Price Control Financial Handbook (“**PCFH**”) and PCFM. The PCFM includes the values of the totex allowances and the PCFH sets out the procedure for the licensee to amend these values.
- 4.58. In Appendix 8 (Process issues) of this response, we set out our concerns with the lack of alignment between these regulatory instruments. Here, we provide further detail on the lack of clarity and alignment regarding whether a totex allowance has separate TO and SO elements or whether the allowance applies to only one form of control.
- 4.59. This currently applies to the cyber resilience price control deliverable, re-opener and use it or lose it allowances, the decarbonisation and environmental policy re-opener allowance, and the funded incremental obligated capacity price control deliverable and re-opener allowances.
- 4.60. The PCFH includes the allowance term as both a TO and an SO input. The licence drafting does not reflect the existence of separate TO and SO elements of the allowance (that is, it does not contain separate algebraic terms for or to distinguish between TO and SO allowances). This combination of drafting across the regulatory instruments implies duplication of the allowance within the PCFM. For consistency, Ofgem should consider replicating the policy of separate TO and SO allowances across the office, gas national control centre and emergency control room re-opener allowances and digitalisation re-opener allowances.

4.61. For all impacted terms we require Ofgem to clearly state in the licence:

- (a) the allocation of ex ante allowances between TO and SO; and
- (b) directions will include the totex allowance allocated to TO and the totex allowance allocated to SO.

Appendix 5 : RIIO-3 Price Control Financial Instruments

Appendix 5a

- 5.1. The issues log for RIIO-3 Price Control Financial Instruments ('**PCFI**'), comprising the PCFH, and PCFM and associated RIIO GDT3 WACC Rates Model, is attached separately.

Appendix 5b

- 5.2. Ofgem published the PCFM at the same time as its Final Determinations. It is intended that the PCFI will form part of SpC 8.1 and Ofgem is consulting on their contents as part of the Statutory Consultation. NGT's comments on the PCFI are contained within the issues log (separate attachment, Appendix 5a – PCFI Issues Log).
- 5.3. The PCFH and PCFM as currently drafted, will not calculate the allowed revenue as intended by the licence and Final Determinations. If uncorrected this will result in an error in customer charges. Specifically:
- (a) the inflation applied to arrive at allowed revenue is incorrect;
 - (b) the net zero pre-construction work and small net zero projects RIIO-3 allowances directed in RIIO-2 have not been included in the PCFM;
 - (c) the decarbonisation project development use it or lose it allowances values in the PCFM do not align to Appendix 1 of SpC 3.5; and
 - (d) the PCFH and PCFM do not include all RIIO-3 allowance categories and retain RIIO-2 categories which do not apply under the RIIO-3 licence.
- 5.4. It is of critical importance that Ofgem rectify these issues prior to publication of its RIIO-3 licence modification direction.

Approach to RIIO-3

Cost of equity – Total Market Return (TMR)

- 5.5. The PCFM calculates the cost of equity based on the CAPM components that Ofgem sets out in the FD Finance Annex.
- 5.6. NGT agrees with certain methodological choices Ofgem has made in setting TMR for RIIO-3, notably the removal of serial correlation adjustments. However, Ofgem continues to utilise ex ante TMR to set the bottom of its range, a measure that is inherently judgemental and, as such, networks have consistently argued throughout the RIIO-3 assessment process that limited weight should be placed upon it. Ofgem set TMR for RIIO-3 at the top of the range it defined, meaning that it is set with reference to ex post TMR. However, our concerns with the use of ex ante TMR (the bottom of the range) remain.
- 5.7. Evidence presented alongside networks' business plans noted that at RIIO-2 TMR reduced significantly, an adjustment that was directionally consistent with lower gilt yields and interest rates. Specifically, Oxera reports consistently demonstrated (specifically paragraph 3.4 of its "RIIO-GD>3 Cost of Equity and Debt Premium Cross Check" report

submitted in response to Ofgem's Draft Determinations consultation) that between 17 December 2012 and 8 December 2020, gilt yields reduced by 2.56% on a real basis, with allowed TMR decreasing by 1.49%. In contrast, between 8 December 2020 and 31 March 2025, gilt yields increased by 4.52% on a real basis, while allowed TMR increased by only 0.4%. Networks have concluded that it would be appropriate to adjust TMR in line with the higher interest rates and gilt yields relevant for the RIIO-3 period.

- 5.8. Ofgem stated in the FD Finance Annex that its TMR estimate was “*not explicitly adjusted to reflect prevailing market conditions*”¹⁶, going on to state that it does “*not agree that our TMR estimate should incorporate an uplift to reflect higher market interest rates or an elevated RFR. A stable TMR approach has helped maintain consistency in allowed equity returns—an attribute we consider highly valuable to investors in energy networks, given that energy projects require significant, long-term capital commitments*”.¹⁷
- 5.9. NGT, along with other networks, disagreed that there is no relationship between TMR and such underlying market data. We consider that Ofgem has erred by not taking into account the evidence presented by networks. Given Ofgem's decision for RIIO-3 and its supporting reasoning, we consider it reasonable to assume that Ofgem will continue to adopt a stable TMR approach in a lower interest rate and gilt yield environment.

Cost of equity – cross checks

- 5.10. Ofgem and networks employ a range of cross checks to assess the cost of equity range and point estimate.
- 5.11. Ofgem concluded at Final Determinations that the cross checks it employed to assess the cost of equity range and point estimate supported its adoption of the mid-point of the CAPM-generated range. This conclusion is based upon Ofgem's chosen cross check methodologies of traded and transactional Market Asset Ratios (“**MARs**”) and an infrastructure fund derived Internal Rate of Return (“**IRR**”). No alternative cross check methodologies proposed by the networks were adopted. The methodologies networks included in evidence submitted alongside business plans consistently demonstrated cost of equity was set too low in the sector specific methodology decision and Draft Determinations.
- 5.12. Specifically related to the use of NGT as a transactional MAR, we note that while the range derived from a very small sample would likely not be affected, no apparent attempt is made to remove the value of unlicensed activities from the transaction date MAR applied in the calculations. Given the material cashflows from such business units, as Ofgem has analysed in detail during 2025 via its Financial Resilience team, this would appear to be a material oversight.

¹⁶ FD Finance Annex, paragraph 3.36

¹⁷ FD Finance Annex, paragraph 3.37

- 5.13. We also note that Ofgem criticises the use of Frontier’s “TMR Glider” to cross check TMR¹⁸, notably necessary assumptions regarding dividend growth and required rates of return. As Frontier noted in its report “Cross-Check Standards of Evidence” (22 August 2025, submitted alongside networks’ Draft Determinations response), analysis of MARs as a cross check of cost of equity are reliant on the same assumptions. Ofgem does not address this inconsistency in the Finance Annex at Final Determinations.
- 5.14. Ofgem also dismissed Oxera’s proposed ARP-DRP methodology, noting its “*inability to definitively determine or ‘back solve’ a required return on equity*”, also citing the CMA’s conclusions in its preliminary findings in respect of PR24 appeals¹⁹. Ofgem also dismissed both Frontier’s hybrid bond methodology²⁰ and KPMG’s debt-based inference analysis cross check²¹. Ofgem fails to directly respond to the key point that in Oxera’s analysis it was demonstrated that the unlevered cost of equity falls below the cost of new debt included in the Final Determinations cost of debt allowance. While the methodology applied to derive a premium between cost of debt and cost of equity can be debated, it is illogical to conclude it is nil, as indeed the CMA has concluded in its preliminary findings for PR24.
- 5.15. Evidence networks submitted consistently demonstrated that a higher cost of equity would align better with cross checks, particularly those that assess the premium equity investors expect over debt and the inference that risks in the gas sector are not adequately reflected in inputs to the CAPM.
- 5.16. We consider that Ofgem has erred by not taking into account the evidence presented by networks. We will fully engage with the refresh of the UKRN guidance to regulators when setting their price control financial frameworks.

¹⁸ FD Finance Annex, paragraph 3.38

¹⁹ FD Finance Annex, paragraphs 3.83 and 3.84

²⁰ FD Finance Annex, paragraphs 3.65 and 3.66

²¹ FD Finance Annex, paragraph 3.85 and 3.86

Appendix 6 : NARM Handbook and Network Asset Risk Workbook

Appendix 6a

- 6.1. The issues log for the NARM Handbook and Network Asset Risk Workbook is attached separately.

Appendix 6b

NARM Handbook

- 6.2. We have raised points of clarification in our review of the NARM Handbook including the requirement that Ofgem define all terms used within the document in order that we may gain full understanding of the guidance.

Network Asset Risk Workbook

- 6.3. As per Table 6 of the FD Overview Document, NGT is working with Ofgem to agree the relevant model data inputs ahead of the model runs in February 2026. The recalculated Long-Term Risk Benefit based on Final Determinations must be reflected in the values stated in Appendix 1 of Special Condition 3.1 (Baseline Network Risk Outputs). NGT has provided Ofgem with an updated version of the Network Asset Risk Workbook on this basis.

Appendix 7 : RIIO-3 Associated Documents

Appendix 7a

- 7.1 The issues log for the RIIO-3 Associated Documents is attached separately and includes comments on:
- (a) Biomethane Use It Or Lose It (UIOLI) Governance Document;
 - (b) Data Best Practice Guidance;
 - (c) Digitalisation Strategy and Action Plan Guidance;
 - (d) Exit Capacity Planning Guidance;
 - (e) Environmental Reporting Guidance;
 - (f) FIOC Guidance and Submissions Requirements Document;
 - (g) PCD Reporting Requirements and Methodology Document;
 - (h) Re-opener Guidance and Application Requirements Document;
 - (i) RIIO-3 NIA Governance Document; and
 - (j) SIF Governance Document

Appendix 7b

Completeness of documents

- 7.2 We have not received the following Associated Documents:
- (a) Small Decarbonisation Projects Governance Document (renamed from RIIO-2 Net Zero Pre-construction and Small Projects Re-opener Governance Document);
 - (b) Decarbonisation Project Development Governance Document (renamed from RIIO-2 Net Zero and Re-opener Development Fund Governance Document);
 - (c) Re-opener template and instructions (as referenced in Re-opener Guidance and Application Requirements Document, version 5);
 - (d) Cyber Resilience PCD template (as referenced in the Price Control Deliverable Reporting Requirements and Methodology).
- 7.3 Given the significance of the consultation, it is highly concerning that Ofgem has not yet provided these documents. Ofgem has indicated that the Associated Documents listed in paragraph 7.2 (a) and (b) will be provided on 29 January 2026. We consider this to be too late for Ofgem to consider and reflect any comments from networks ahead of the deadline for publication of the RIIO-3 licence modification direction. Ofgem has not indicated when the Associated Documents listed in paragraph 7.2 (c) and (d) will be available to networks for comment.
- 7.4 We require the Associated Documents listed in paragraph 7.2 to be provided to NGT by 21 January 2026.

Appendix 8 : Process issues

Insufficient reasons

- 8.1. When making licence modifications under the Gas Act 1986, Ofgem must fulfil certain criteria including “*setting out the proposed modifications and their effect*”²² and “*stating the reasons why it proposes to make the modifications*”²³. Ofgem’s Reasons and Effects Document states that “*within this document, we set out the reasons why we propose to make [licence] changes and their intended effect*”²⁴.
- 8.2. Ofgem’s Reasons and Effects Document fails to provide sufficient reasons for the changes it is proposing to NGT’s licence. For example:
- (a) the reason given by Ofgem for changing definitions in SpC 1.1 is because of amendments being made to other Special Conditions. This provides no detail or explanation about the changes. In addition, no further detail is provided alongside the individual conditions affected by the definitions. For example, Ofgem has proposed introducing a number of cyber related definitions for RIIO-3. Having reviewed these alongside the proposed cyber resilience Special Condition, it is NGT’s opinion that the new definitions are largely unnecessary. But because no explanation has been given as to why these definitions have been introduced, it is impossible to understand Ofgem’s position, and therefore impossible to know if NGT’s response fully addresses Ofgem’s position.
 - (b) no reasons have been given why Ofgem is proposing to add the revenue re-profiling adjustment term (RPA_t) to SpCs 2.1 and 2.3. Further detail on the significant concerns NGT has with the introduction of this term are set out at Appendix 4.
 - (c) the reasons provided for the introduction of new SpC 3.3 set out that Ofgem intends to merge and provide for physical security and resilience activities under one re-opener condition, “*enabling adjustments to allowances where the UK Government requires network companies to undertake resilience-related activities not anticipated at the start of RIIO-3*”²⁵. What is not clear from these reasons is, for example, why Ofgem has replaced the reference to the known and understood ‘Physical Security Upgrade Programme’ in the RIIO-2 licence condition with reference to an unknown ‘*physical security programme to be designated by the UK Government*’²⁶. Further, Ofgem’s reasons do not explain why the proposed re-opener is more restrictive than for RIIO-2, requiring a change to the Critical National Infrastructure (“**CNI**”) classification which results in a change to the scope of work, whereas for RIIO-2 no change was required to the CNI classification itself for the re-opener to apply.

²² Section 23(2)(b) Gas Act 1986

²³ Section 23(2)(c) Gas Act 1986

²⁴ Reasons and Effects Document, paragraph 1.4

²⁵ Reasons and Effects Document, paragraph 3.150

²⁶ SpC 3.3, paragraph 3.3.7

- (d) the reasons provided for changes to Special Condition 5.6 (System operator external incentives, revenues and costs) are inadequate. For example, Part C (the quality of demand forecasting incentive) does not explain the extent of the difficulty in meeting the incentive target and the calculation of the demand forecasting incentive is based on a target of 8mcm/d which does not align with the 6.79mcm/d target outlined in Final Determinations. We appreciate that targets should be ambitious and acknowledge that Ofgem has removed the efficiency factor as NGT requested. However, the Reasons and Effects Document (and Final Determinations) provide no explanation of why Ofgem moved from its Draft Determinations position and how Ofgem reached the proposed targets, despite the extensive analysis NGT provided to Ofgem ahead of Final Determinations. Please refer to Appendix 4 of this document for further information on the errors NGT has identified in respect of proposals for the incentive conditions.

- 8.3. In considering the extensive issues that NGT has raised in response to the Statutory Consultation Ofgem should consider whether it has provided adequate reasons for the changes being proposed. We request that Ofgem engage with NGT during the period ahead of the publication of the RIIO-3 licence modification direction to enable ongoing issues to be resolved in a timely manner.

Insufficient information

Associated Documents

- 8.4. The Reasons and Effects Document states that “[w]e are consulting on our proposed modifications to the licence conditions required to implement the RIIO-3 price control settlements... This is the statutory consultation on the proposed licence modifications”²⁷. In respect of the Associated Documents, it goes on to state that “[i]t also shows when we are planning on consulting on these documents”²⁸.
- 8.5. Ofgem has published some of the Associated Documents alongside the Statutory Consultation acknowledging that “[t]hey are important for licensees participating within RIIO-3 schemes as they provide information, requirements and guidance that are not proportionate for inclusion in the licence conditions”²⁹.
- 8.6. Ofgem has confirmed that the following Associated Documents, which it did not publish alongside the Statutory Consultation, will be shared on 29 January 2026, well after the closure of the Statutory Consultation period:
- (a) NZARD Governance Document
 - (b) NZASP Governance Document
- 8.7. It is unclear how Ofgem expects NGT to respond on the adequacy of the licence conditions when Ofgem itself has acknowledged that the Associate Documents are required to enable

²⁷ Reasons and Effects Document, paragraph 1.1

²⁸ Reasons and Effects Document, paragraph 2.2

²⁹ Reasons and Effects Document, paragraph 2.1

a full understanding of the obligations being imposed. NGT reserves the right to provide further comments on the associated licence conditions once Ofgem has provided and NGT has completed its review of the Associated Documents listed at paragraph 8.6(a)-(b).

- 8.8. It is unclear which of the published Associated Documents Ofgem considers forms part of this consultation. As such, NGT has set out identified issues with all of the Associated Documents that Ofgem has published to date regardless of the specified date of consultation.
- 8.9. The Reasons and Effects Document indicates that all the Associated Documents will come into effect on 1 April 2026, regardless of the date of consultation³⁰.
- 8.10. For the following Associated Documents, the consultation date pre-dates the publication of the Statutory Consultation:
 - (a) Data Assurance Guidance, date of consultation: 31 May 2022;
 - (b) Data Best Practice Guidance, date of consultation: 15 November 2021; and
 - (c) Digitalisation Strategy and Action Plan Guidance, date of consultation: 15 November 2021.
- 8.11. The Associated Documents listed in paragraph 8.10(a)-(c) have been in place throughout RIIO-2. From a procedural perspective, the basis on which Ofgem suggests that the document is only in effect from 1 April 2026 is unclear. Either the Associated Document is being consulted on from December 2025 as part of the Statutory Consultation and comes into force from 1 April 2026. Or the Associated Document is not being consulted on and is already in force. As Ofgem's intent is unclear, NGT has reviewed the Associated Documents listed in paragraph 8.10 (a)-(c) and has identified issues that require rectification.
- 8.12. The following Associated Documents have been in place throughout RIIO-2:
 - (a) ECP Guidance;
 - (b) Funded Incremental Obligated Capacity Re-opener Guidance;
 - (c) Price Control Deliverable Reporting Requirements and Methodology Document;
 - (d) Re-opener Guidance and Application Requirements Document; and
 - (e) Strategic Innovation Fund Governance Document.
- 8.13. By publishing and stating that consultation is being carried out in December 2025 our assumption is that Ofgem considers that it is using the self-modification procedure within the RIIO-2 licence to consult and amend these documents. The licence conditions underpinning the Associated Documents listed in paragraph 8.12(a)-(e) require Ofgem to provide the reasons for the amendments. Ofgem has provided no reasons for the proposed changes to these documents and has therefore not complied with the self-modification procedure set out in the RIIO-2 licence. We expect Ofgem to engage fully with NGT in finalising these Associated Documents and reserve the right to provide further comments on the associated licence conditions.

³⁰ Table 2: List of Associated Documents for RIIO-3, pages 12-19

8.14. No licence conditions to underpin the following Associated Documents exist in NGT's RIIO-2 licence or the drafts of these Associated Documents indicate that they will have been issued in accordance with their respective RIIO-3 licence conditions:

- (a) Biomethane UIOLI Guidance Document;
- (b) Environmental Reporting Guidance; and
- (c) RIIO-3 NIA Governance Document.

8.15. Consultation on the Associated Documents listed in paragraph 8.14(a)-(c) can only occur once the RIIO-3 licence conditions themselves have come into effect. By consulting on the Associated Documents ahead of the start of RIIO-3, Ofgem will not have followed the self-modification procedure it has proposed in the conditions. We anticipate, therefore, that Ofgem will consult on these Associated Documents after the relevant RIIO-3 licence conditions have come into force.

RIIO-GT2 close out

8.16. There is an overall lack of structure and clarity regarding the RIIO-GT2 close out mechanisms. Chapter 8 of the PCFH contains very limited information. Reference to a "*General Financial Adjustment Methodology*" within the PCFH lacks supporting detail and the closeout methodology table is currently unpopulated. We are unable to complete a full review of the PCFH until this information is provided.

8.17. Also related to RIIO-GT2, Ofgem has proposed the introduction of a new SpC 3.28 (GT2/GT3 Crossover Adjustments). Ofgem states "*This condition's purpose is to prevent funding gaps or duplication across RIIO-GT2 and RIIO-GT3, ensure efficient costs are appropriately remunerated, avoid undue benefits from delaying work, and allow clawback where necessary*"³¹. Ofgem states that it is not proposing to issue further GT guidance on this condition despite the Electricity Transmission licence condition equivalent detailing the circumstances in which Ofgem may decide to modify values. Therefore, it is unclear how this condition will interact with the closeout process, if at all.

8.18. We request that Ofgem provides:

- (a) Further details of the RIIO-GT2 closeout methodologies, inviting comment from networks;
- (b) GT2/GT3 Crossover mechanism guidance for review and comment, equivalent to that applicable to other networks setting out the assessment process for these adjustments, the circumstances under the adjustments may be made and the interaction with the GT2 closeout process.

Representations period of up to 28 days

8.19. We strongly disagree with Ofgem's proposal to impose a blanket cap on the timeframe for consultation under the self-modification procedure set out in the licence. Ofgem has

³¹ Reasons and Effects Document, paragraph 6.142

proposed changing its approach from a period of "*not less than 28 days*" (as was the case under RIIO-2) to "*up to 28 days*" for RIIO-3³².

- 8.20. Ofgem explains that this change will facilitate "*quick decisions from Ofgem*", which stakeholders have expressed they value³³. Ofgem further explains that consulting for 28 days in respect of many in-period self-modifications, which it anticipates will be straightforward and non-controversial, is disproportionate and so this change "*will enable Ofgem to set a consultation period which best fits the proposed modification*" and "*set a consultation period that is proportionate to the particular circumstances*"³⁴.
- 8.21. Ofgem appears to be proceeding on the assumption that there will be no in-period modifications which require a consultation period of more than 28 days and is therefore ruling out that possibility with its proposed change – even where it would be proportionate to do so. In contrast, Ofgem's position in RIIO-2, which is aligned with the timeframe for consultation on proposed licence modifications in the Gas Act 1986, recognised that there may be some instances where a consultation of 28 days or more is proportionate and fair in the circumstances.
- 8.22. Ofgem's explanations at paragraphs 1.15 and 1.16 of the Reasons and Effects Document do not provide any justification for this assumption and merely state that "*there will be modifications where a consultation period of or close to 28 days is warranted*".
- 8.23. It is entirely unclear how Ofgem will ensure that adequate time will be given for consideration and response of self-modifications if Ofgem's position is that consultation periods will be subject to a blanket cap of 28 days. NGT is very concerned that this could give rise to procedural unfairness and cause real prejudice not only to NGT but also to other stakeholders who wish to reply to these public consultations.
- 8.24. NGT considers that Ofgem is fettering its discretion in pursuit of making "quick decisions" with a proposal that will ultimately have no effect on how quickly Ofgem will make decisions.
- 8.25. Although it will not address stakeholders' concerns about the length of time that it takes Ofgem to make decisions, NGT recognises that there may be circumstances where a consultation period of fewer than 28 days could be proportionate. NGT proposes that Ofgem maintain its position from RIIO-2, namely that consultations will be for a period of not less than 28 days and introduce an option to enable Ofgem and affected licensees to agree a shorter period of not fewer than 14 days to only be applied in exceptional circumstances where the proposed change is straightforward and not expected to be controversial.

³² Reasons and Effects Document, paragraphs 1.14-1.16

³³ Reasons and Effects Document, paragraph 1.15

³⁴ Reasons and Effects Document, paragraphs 1.15-1.16

Standard and Standard Special Conditions

- 8.26. Annex 1 of Ofgem’s “Notice of statutory consultation on a proposal to modify the Special Conditions and Standard Special Conditions of the Gas Transporter licence” does not list NGT’s SLCs and SSCs as due for amendment. NGT assume this is an oversight. NGT has commented on the amendments to these conditions on the basis that Ofgem’s intent is for the proposed changes to apply to NGT.
- 8.27. It is NGT’s priority to ensure that it has a licence that is coherent and fit for purpose. In response to the Initial Consultation, NGT raised extensive issues on the Special and Standard Special Conditions in its licence. Ofgem has determined that it is unnecessary to try and resolve these issues at the outset of the RIIO-3 control period, containing its statutory consultation to amendments to one Standard Condition and four Standard Special Conditions (applicable to NGT).
- 8.28. We do not agree with Ofgem’s conclusions that the beginning of a control period is not the opportune time to resolve outstanding issues in the Standard and Standard Special Conditions of a licence and consider that Ofgem could request that licensees highlight known issues as part of the price control process. We have noted in response to this Statutory Consultation those conditions that require updating in advance of the next price control (see appendices 2 and 3).
- 8.29. We also consider that, consequential on amendments being made elsewhere in the licence, Ofgem should make additional changes to some of the Standard Conditions and Standard Special Conditions ahead of RIIO-3. Please refer to appendices 2 and 3 for further information.

Misalignment of regulatory instruments

- 8.30. NGT has highlighted throughout the licence drafting process the importance of Ofgem ensuring that the licence aligns with itself and other regulatory instruments. We have also raised concerns with Ofgem’s prioritisation of standardising drafting across different licences, rather than ensuring the standardisation of drafting within an individual licence.
- 8.31. Despite repeated requests, misalignments between the licence and PCFI have been identified. We have noted these in the issues logs that accompany this letter. Ofgem should ensure that these documents are aligned ahead of publication of the final versions.
- 8.32. Ofgem has also prioritised standardisation across different licences, with the importance of aligning with the electricity distribution licence given as a reason for changes being made to NGT’s licence in some instances. This has resulted in the introduction of uncertainty within Chapter 3 of the Special Conditions, with Ofgem adopting NGT’s standardised drafting for NGT specific conditions but failing to do so for cross sector conditions. It has also resulted in the contradictory situation of Ofgem removing metering conditions from one part of NGT’s licence, whilst introducing drafting in relation to smart metering in another part of NGT’s licence. NGT has noted concerns in the issues logs that accompany this letter and request that Ofgem re-consider its prioritisation.