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By email only to Matthew.chambers@ofgem.gov.uk

Dear Matt

We are pleased to be able to respond to your consultation on the review of Independent Gas Transporters' Relative Price Control. The consultation represents positive work in support of Ofgem's statutory objectives to:

1. Protect current and future energy consumers
2. Facilitate net-zero
3. Ensure licensees are able to finance their activities.

BUUK is supportive of the proposals because, as part of the energy transition, IGTs will be required to facilitate Net Zero by undertaking activities on our networks. Under all projected Future Energy Scenarios (FES) this will include disconnections of supply points. We are already seeing an increase in volume of this activity and, in line with any scenario and FES, we anticipate a ramp of up disconnections this decade.

Currently, for health and safety disconnections, networks (including IGTs) are required to fund this work. Whilst there is a volume driver within the GDN price control to cover this cost, the current operation of the RPC ceiling limits IGTs ability to recover an equivalent cost for the disconnection.

As well as the cost IGTs incur for disconnection activity, IGTs are also required to write off the value of the assets relating to the connection itself, which incurs additional cost – which, again, is different to the GDNs. Upon disconnection, the GDNs' asset value base ensures that they recover the costs of depreciation and capital recovery for disconnected assets from customers who remain connected to their networks; in contrast IGTs are unable to move this cost to their wider customer bases.

Therefore, BUUK supports the changes proposed to the RPC framework to ensure this material issue is resolved.

Both consumer protection and facilitating the energy transition are reliant of the financeability of stable, resilient and well-maintained networks. Ensuring that IGTs are able to finance the obligations which are placed on them by the Gas Act and their licence is a fundamental part of protecting consumers. These are mutually inclusive objectives.

Changes to the RPC framework which ensure that IGTs are able to finance their activities and remain financially stable is imperative for financial resilience and we would urge Ofgem to ensure that this change is enacted swiftly to mitigate current and future risks.

Furthermore, we are supportive of the case for change as a result of current arrangements' incompatibility with Competition law precedents. The inability of IGTs to recover their efficiently incurred costs is incongruent with established competition law precedent that the IGT is entitled to recover the same costs as the equivalent notional downstream business of the GDN. In determining which option to implement it is important to consider how to achieve compliance with this principle too.

In addition to the three statutory objectives above, we note that the document also refers to the fact that the proposed changes "will not have an impact on economic growth". We believe this is true, implementing the proposed Option 1 would underscore confidence and trust in the market and ensure that there is no impact to economic growth; especially given that when introducing RPC for IGTs, Ofgem intended for the floor and ceiling to be in place for 20 years before being removed so IGT charges track the equivalent GDN charge as set out in paragraph 3.76 of Ofgem's document – The Regulation of Independent Gas Transporter Charging Final Proposals[1].

In relation to the options proposed, our view is that Option 1 within the consultation best meets the above objectives by ensuring that IGTs are financed to undertake activity on a directly equivalent basis to the GDN. Options 2a and 2b restrict this by placing an additional cap, and then a transition, in the case of 2b, which could inhibit IGTs' ability to finance their activities.

It is important to reiterate that in any option within the consultation, consumers who are on the retail price cap will not see an increase in their gas bills. This is because the retail cap is calculated based on the GDN charge, i.e. based on a charge equivalent to Option 1.

If you have any questions about our response or the points raised within, then we would happily contribute further.

We look forward to being able to work constructively with Ofgem and other industry partners on developing the implementation of this review.

Yours Sincerely

Tom Cadge

Director of Regulatory Affairs

[1] The Regulation of Independent Gas Transporter Charging - Final Proposals (July 2003) Paragraph 3.75 (available at: https://www.ofgem.gov.uk/sites/default/files/docs/2003/07/3946-decisiondoc_igt_final_proposals_0.pdf)

Appendix 1 – Response to Consultation Questions

Q1. Do you agree with our assessment that the current RPC floor and ceiling have resulted in a material constraining effect on IGT charges over time?

Yes, we agree with Ofgem's assessment that the current floor and ceiling have resulted in a material constraining effect on IGT charges since the introduction of RPC in 2004. This constraint has the effect of limiting the revenue available to IGTs and creates a financeability risk on IGTs if it is not addressed which in turn, will impact consumers and networks' ability to facilitate a stable transition to net zero.

This impact has grown significantly over the course of that period, to the extent where now the vast majority of IGT supply points are constrained by the ceiling. Whilst Ofgem's illustration in figure 2 of the consultation document is a single example, the shape of this graph is very common and illustrative of the broader operation of the floor and ceiling.

BUUK have previously provided graphs illustrating the differential between the GDN equivalent price and the IGT charge for each region and entry year combination. This data, shows that there has been a material constraining of IGT charges by the operation of the floor and ceiling (Data shared on 12th August 2025)

In addition, at the time when RPC was introduced, Ofgem intended that this floor and ceiling would only be in operation for 20 years[2].

Q2. Do you agree that a case for revising the RPC floor and/or ceiling has been sufficiently established?

Yes, we agree that the case for revising the RPC floor and ceiling has been sufficiently established.

As we have set out in our accompanying letter, consumers rely on networks that are financially stable, well-maintained and can adapt to support the energy transition. We do not believe that the exiting RPC floor and ceiling arrangement operate in a way to support these objectives and this creates a clear risk to the financeability of IGTs which in turn leads to unnecessary consumer risk.

Whilst GDN charges to shippers will increase to reflect the costs of disconnecting customer premises and the recovery of their asset value from a reducing customer base, the RPC ceiling (at which the vast majority of IGT supply points are charged) limits the IGTs from applying a commensurate increase to their charges to cover the equivalent costs that they face from disconnections.

To examine this in more detail - the floor and ceiling, as they currently operate, restrict the ability of IGTs to recover revenue on an equivalent basis to the GDNs. Ofgem assesses, through the RIIO price control process the efficient frontier at which the GDN needs to operate.

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[2] The Regulation of Independent Gas Transporter Charging - Final Proposals (July 2003) Paragraph 3.75

It therefore follows that IGTs operating efficiently need to be able to recover the same revenue as the equivalent GDN business.

The GDNs determine, through their charging methodology in the Uniform Network Code, the split between charges attributable to the upstream network and the downstream parts of the network. GDNs have an obligation under competition law to ensure that the revenues available to the downstream business reflect the costs that the GDN would incur if it were to operate the downstream part of the network as efficiently, on an arms-length basis.

Ultimately, the combination of these two components results in the conclusion that an IGT operating as efficiently as a GDN would require the same revenue as the GDN to cover its expenditure and make a usual profit.

It is widely recognised that an intended outcome of the transition to net zero is that customers will replace their existing gas heating systems with electric alternatives. In considering the case for change, Ofgem has rightly sought to understand the costs that IGTs will foreseeably incur in the future in operating their businesses in an environment where disconnections become more frequent. BUUK have already started to see an increase in the number of disconnections on our networks and would be happy to share specific numbers with Ofgem in confidence.

As we have explained, GDNs and IGTs incur costs in undertaking “Health & Safety” disconnections (i.e. where the customer’s meter is removed and transporters are obliged to disconnect the service pipe). As the volume of disconnections increase, the GDNs will recover their costs in RIIO-GD3 through a disconnection volume driver which will increase GDN revenue to recover costs from the wider customer base.

As well as the cost IGTs incur for disconnection activity, IGTs are also required to write off the value of the assets relating to the connection itself which incurs additional costs – which is different to the GDNs. Upon disconnection, GDN’s asset value base ensures that they recover the costs of depreciation and capital recovery for disconnected assets from customers who remain connected to their networks; whilst this increases the GDN charges, in contrast, IGTs are unable to move this cost to their wider customer bases, because the cap limits the IGTs ability to reflect the increase in GDN charges in their own charges.

As IGTs are already charging at the ceiling for the vast majority of supply points, IGTs would not receive an equivalent revenue increase but would see their costs increase. This leaves a material risk that IGTs are unable to finance the duties imposed on them.

Ofgem have stated in their consultation document in paragraph 2.10 that the “failure of [IGT] businesses could pose risks to consumer protection, network stability and continuity of supply.” The reality of disconnection costs and the structure of IGT charging means that the financeability risk on IGTs would significantly increase in the absence of reform of the floor and ceiling in RPC. Aside from, and on top of, Ofgem’s statutory obligation to ensure the licensees can finance the activities required by the Act and the licence, there is a real requirement for changes to the RPC framework in order to be able to mitigate the risks Ofgem have identified.

Q3. Do you agree with our proposed changes to the RPC floor and ceiling?

In determining the proposed changes, we recognise that Ofgem has sought to balance the impacts on the wider gas charging system with the established case for change. There were transitional arrangements in place for the migration of legacy charging points to RPC and so there is some history and precedent of transitional arrangements in RPC.

We have previously engaged with Ofgem on how to approach a transitional arrangement as we saw that there was merit in this type of approach. We have also noted that Ofgem's final determinations in the RIIO-3 price control process included a transitional arrangement which was phased on an NPV-neutral basis to limit the impact of customer bills, giving further precedent to NPV neutral transition arrangements.

Disconnections and the transition to Net Zero is already taking place today, and accelerating, in the face of the materially constraining effects of the Cap. Therefore, BUUK has maintained that transitional arrangements should be considered on an equivalent NPV-neutral basis to ensure that any party is not unduly disadvantaged.

BUUKs preferred path forward is Option 1. This would allow IGTs to recover all reasonably costs associated with the changes in the market, comply with competition law precedent, without impacting customer bills.

To reiterate, there are real and present costs which IGTs are incurring and without revenue neutrality on the transition these are costs which are being efficiently incurred by the IGT (i.e. they cannot be avoided) and which the framework does not allow IGTs to recover to the same extent as the GDN. In addition to costs of disconnection, there are costs incurred in writing off the capital value associated with the investment made in each connection as this cannot be socialised to other IGT customers.

In determining which option to take forward, Ofgem should give regard to ensuring that IGTs are able to finance their activities. We do not believe that a transition, without a subsequent correction, has regard to the obligations which IGTs are required to finance during the transition period.

We do not believe that either an NPV neutral transition, Option 1 or Option 2a will impact customer bills as we have found no evidence that suppliers have offered IGT connected customers lower fixed tariffs to reflect the lower cost to serve them, based on lower transportation charges.

Whilst we do understand the concerns which have led Ofgem to adopt option 2b as its minded to position, we think that these concerns should be set in the context which was established in the case for change. Since 2004 IGTs have consistently levied charges to shippers which are, on average, constrained by the ceiling and are lower than the equivalent GDN charge. We have been unable to find any evidence that these savings have been passed to consumers in the form of lower bills for IGT connected customers.

Notwithstanding these comments, we do understand that market shocks are undesirable and so we do recognise, as we initially proposed, the value in a transition which is ideally NPV neutral. However, we recognise that Ofgem, in the consultation paragraph 3.16, considers that this approach is inconsistent with the underlying intent of RPC. Our initial presentation of this option to Ofgem considered that such an approach was consistent, in the long run, with RPC intentions to ensure shippers faced charges which are no more than the GDN equivalent.

We believe that this approach would have mitigated the risk to consumers created by a transition by ensuring that IGTs can finance their operations in the long run.

However, in the absence of an NPV neutral transition we believe that any transition must be swift and should be front loaded to ensure that IGTs are able to recover the costs that they are currently incurring as a result of historic and current disconnections and changes.

In order to mitigate these present and real risks, we would propose a maximum of a two-year transition in which IGTs are able to recover the majority this in year one. This recognises, and minimises, the financeability risk that IGTs face, whilst also considering the value that the wider gas charging market have enjoyed over the operation of RPC and the fact that this change would not apply retrospectively.

Ultimately, the most appropriate solution will protect consumers from the issues identified in the case for change of IGT financeability.

Q4. Do you agree with our proposed reporting requirements for the IGT sector?

Yes, we agree with the reporting requirements set out by Ofgem. We welcome the opportunity to be able to provide additional reporting to Ofgem to ensure that we can demonstrate the value and service of IGTs. We are looking forward to working with Ofgem to refine the reporting requirements and to implement the reporting. We think that this is an important part of the wider proposals to ensure that IGTs are performing well for customers.

Q5. To what extent should proportionality (such as thresholds, phased adoption, sampling) be applied to this reporting that would maintain data quality while limiting burden on smaller IGTs?

We agree with Ofgem's view in paragraph 4.16 that it is important that all parties meet a common standard to ensure consistent consumer protection. We believe that any exceptions to this baseline need to be robustly justified and should include provisions to demonstrate how consistent protections are still being provided.

Q6. Do you have any views on our proposed 'other' changes to the IGT RPC?

Yes, we set out views to each of these issues changes below

Legacy – There is an assertion that all supply points have migrated to RPC and that reference to the legacy arrangements could/should be removed from the licence condition. Whilst we believe this to be true for domestic supply points, our GTC Pipelines licence still charges some non-domestic supply points under derogation granted by Ofgem. We have included a copy of this derogation for ease. We would expect this derogation to remain in place and not to be impacted by these reforms. We would, however, welcome any further discussions with Ofgem to provide more information.

Inflation – We recognise the rationale for Ofgem proposing to change the inflationary measure used by Ofgem in iterating the floor and ceiling and we agree that this change should take effect, noting that the current intention is for the RPI methodology to be altered to mirror the CPI-H methodology.

Ongoing Efficiency Factor – We believe that the ongoing efficiency factor has the effect of triple suppressing IGT charges. There is already an efficiency built into the charges by virtue of the wSSP including the GDN's ongoing efficiency in their price control. The ceiling then operates as a second restriction of IGT charges. Where the ceiling bites, the IGT is already required to be efficient beyond the GDN efficiency as the IGT cannot recover the same revenue as the GDN. By adding an efficiency factor to this calculation of the ceiling, there is a further requirement for IGTs to outperform GDN prices which we believe requires extraordinary efficiency from IGTs. We see merit in retaining the efficiency factor in the floor calculation as this would continue to serve as an RPI-X style of regulation and the issue of suppression does not occur when charges are at the floor. We believe that the ongoing efficiency factor should be updated to reflect the current expectation of ongoing efficiency in GDN businesses. We recognise that the exact level is currently subject to an appeal by the incumbents to the CMA and believe that the ongoing efficiency should reflect the CMA's decision, and then also be updated to reflect changes in future price controls

Updated RPC guidance document – We agree that this document should be updated and would welcome the opportunity to work with Ofgem to develop a clear and robust guidance document outlining the RPC methodology and, where appropriate, incorporating reporting requirements.