indigo pipelines

To: Matthew Chambers

Gas Distribution Policy Team

Ofgem

Email to: matthew.chambers@ofgem.gov.uk

22 May 2026

Dear Matthew

Independent Gas Transporters Relative Price Control review consultation

Thank you for the opportunity to comment on the above consultation document. This response is from Indigo Pipelines Limited (IPL), which has been an IGT since 1992. We currently provide distribution services to over 200,000 end consumers. We expect to continue to add to our portfolio until 2030 and beyond that time we will continue to invest to provide services to that end consumer base, including investment that will be required to make disconnections or adaptations for alternative technologies.

We have attached a commercial-in-confidence annex that we ask is not published with this response.

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 IGT Relative Price Control (RPC) floor and ceiling has had a materially constraining effect on IPL's charges over time. This mirrors the experience of the majority of IGTs. We have already submitted detailed figures to Ofgem as part of its request for information and have included those figures again in a commercial-in-confidence annex.

Without reform we expect the constraining effect to continue, severely impacting the future financial sustainability of IPL.

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

Yes, we strongly agree. Since the implementation of the RPC, IPL has been providing "last mile" distribution services to our end customers on a par with GDNs. However, the RPC ceiling has meant that we have not been permitted to recover the total amount of revenue that a GDN would have been allowed to recover, had they been providing the equivalent "last mile" services to those same end consumers.

There is no evidence that this "saving" in transportation charge has been passed on to end consumers and we must conclude that it has been absorbed by suppliers or shippers.

With the advent of a switch away from gas to electricity heating, RIIO-3 has recognised the impact on GDNs of a faster shrinking asset base with a shorter than anticipated life span, allowing them to depreciate new assets over a shorter time and keeping open the prospect of further adjustments if necessary.

With an RPC ceiling IGTs do not have access to a similar mechanism to ensure that their income is sufficient to cover the ongoing costs associated with disconnections and adaptations to new technologies.

IPL believes that the case has been made to revise the RPC floor and ceiling and that the case to make those reforms by January 2027 has also been made. There has been a material constraining effect on IGT charges over time and that constraint will increase substantially into the future. The sooner it can be reformed the better.

In order to meet the January 2027 implementation date progress in the next few weeks is critical. As soon as a statutory consultation is issued, we can make changes to billing systems and test them, which could take 3-6 months. In parallel changes to charging methodologies will need to be drafted by IGTs and considered and approved by Ofgem. A late publication of any statutory consultation puts considerable pressure on both of these necessary steps.

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

Ofgem's consultation sets out three broad approaches which we respond to individually below:

<u>Option 1 – remove floor and ceiling altogether</u>

IPL believes this is the fairest option and most administratively efficient outcome compared to the other options posed. It is simple, has the least impact on existing billing systems (the removal of some terms), administration and price controls are aligned with the GDNs and it provides the greatest clarity for investors. It allows IGTs equitably to finance the energy transition as is currently

Indigo Pipelines Ltd.
Head Office: 100 Brook Drive, Green Park, Reading, RG2 6UJ
enquiries@indigonetworks.co.uk | 0118 436 2510 | www.indigonetworks.co.uk
Registered in England: 02742721

permitted to the GDNs, providing equivalent services to equivalent customers. Future assets for IGTs would benefit from RIIO-3 concessions to GDNs. Any reopening of RIIO-3 as a result of greater than anticipated change would immediately flow through to IGTs with no further intervention.

As the curtailment has had no impact on end consumer prices, we do not expect the removal of the curtailment to have an impact on end consumer prices. The retail price cap, based on GDN transportation costs, would continue as before.

Option 2a – retain the floor and ceiling and reset the starting point at the beginning of each GDN price control period

IPL believes that this option could be implemented in time (it requires an addition step in the billing process and more complex changes to the licence) and is better than no reform. It goes some way to removing the iniquity between GDNs and IGTs. However, our modelling suggests that we would still expect to see curtailment at the latter end of the price control periods, damaging our financial sustainability and ability to invest for change compared to a GDN providing the equivalent service. It would require interventions every 5 years and is a duplication of a price control that is already managed at the GDN level by Ofgem. We believe that if Ofgem is minded to proceed with some kind of RPC in this format that it should consider widening the band beyond +/-5% and removing the efficiency factor. We discuss this in more detail below.

We do not expect Option 2a to have any material benefit to end consumers compared to Option 1.

Option 2b – based on option 2a but with some form of transition period.

IPL considers that this option is better than no reform and that it could be implemented in time (it requires two additional steps in the billing process and considerably more complex changes to the licence). However, it would lead to an under recovery in the first year (or two) of the RPC period with the potential for under recoveries in the latter years of the price control period if the ceiling were to start constraining. This exacerbates the problems identified for Option 2a. IGTs would not be allowed to recover revenue to invest in change compared to a GDN providing the equivalent service. We believe that if Ofgem is minded to proceed with this option it should make the transition as short as possible, consider widening the band beyond +/-5% and removing the efficiency factor.

If Ofgem is minded to proceed with Option 2b, we ask that they consider implementing a mechanism to allow IGTs to over-recover revenue forgone during the phased implementation. Using an NPV neutral approach; tariffs in later years could be adjusted above the GDN shadow price to ensure greater equity between GDNs and IGTs.

We do not expect Option 2b to have any material benefits to consumers compared to Option 1.

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We have set out the impact on IPL of the sub-options in 2b compared to 2a, which are substantial. This is contained in our confidential annex.

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

Yes, we welcome clarity and would like to see specific methodologies set out for the compilation of figures. We have reservations about how we would measure shrinkage but would be happy to participate in workshops on how to devise a methodology if that were deemed necessary.

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?

Proportionality should be considered to a greater extent. IGTs are necessarily lean organisations.

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

We agree with Ofgem's proposal to replace the Retail Price Index (RPI) with Consumer Price Index (CPIH) for Options 2a and 2b.

We believe that IGTs are already subject to an efficiency factor linked to GDNs' price controls and that imposing an additional efficiency factor is duplication. In addition, an efficiency factor to ceiling prices places further iniquity between IGTs and GDNs. We suggest that Ofgem could consider removing the efficiency factor.

Ofgem should consider widening the band in option 2a and option 2b if it wishes to retain the floor and ceiling to create some form of control in the early years of the reform. The wider the band the less curtailment impact the RPC would have and if set wider could prevent curtailment in the latter years of the price control.

Please do feel free to contact me regarding any aspects of this response.

Yours sincerely,

Terry Dugdale
Chief Executive Officer
Indigo Pipelines Limited