22 May 2026

BY EMAIL ONLY
Matthew Chambers
Gas Distribution Policy Team, Ofgem

Last Mile Gas Limited (LMGL) response to Independent Gas Transporters Relative Price Control review consultation

Dear Matthew Chambers,

Thank you for the opportunity to respond to the above Consultation.[1] This response is provided by Last Mile Gas Limited ("**LMGL**") - an Independent Gas Transporter (IGT) across mainland Great Britain.

We welcome Ofgem's review of the Relative Price Control (RPC) and support its conclusion that a case for revising the RPC floor and/or ceiling has been sufficiently established. Ofgem is considering three options for change:

- Option 1 - Full removal of the floor and ceiling (full uplift to GDN equivalent charges now).
- Option 2a - Adjust RPC according to RIIO changes (keeping the floor and ceiling) with an immediate uplift now to align IGTs with GDN charges
- Option 2b - Adjust RPC according to RIIO changes (keeping the floor and ceiling) with a phased uplift to align IGTs with GDN charges.

Ofgem's preferred option is Option 2b. In our view, this option has two main shortcomings:

> 1) the retention of the ceiling in its current form means that it is likely to continue to bind early in each price control period (for clarity, this is also the case under Option 2a) and therefore constrain IGT revenue;
>
> 2) the phased uplift will continue to constrain IGTs revenues and cost recovery during the transition period.

In our view, Option 1 is the strongest option. It achieves the intended objectives, removes the complications that result from under-recovered revenue under option 2a and 2b; it is less complex to implement; and will not result in customers of IGTs paying more for their networks.

If Ofgem is to proceed with Option 2b, we suggest that amendments to the ceiling (and floor) will be necessary and/or that further changes will be required to allow for under-recovered revenue, due to the transition period and/or the effect of the ceiling binding, to be recovered in future periods on an NPV neutral

[1] Independent Gas Transporters Relative Price Control review consultation

basis. We also suggest that the transition period should be as short as possible or removed (Option 2a). Possible amendments to the ceiling and floor may include removal of the ongoing efficiency factor and/or a widening of the corridor.

We broadly support Ofgem's enhanced reporting requirements and agree that they support transparency. However, we do not agree with the inclusion of shrinkage. We do not believe that this is a proportionate requirement for IGTs.

We note our support and contribution to the Independent Network Association's (INA) consultation response and accompanying confidential annex, where we estimated the impact of the value of this constraint over a transition period.

Our detailed responses to the consultation questions (Appendix) set out our reasoning and recommendations.

We look forward to continuing to work collaboratively with Ofgem throughout the RPC review and its implementation.

Sincerely,

Gavin Baillie
Head of Regulatory Affairs

APPENDIX: LAST MILE GAS RESPONSE TO INDEPENDENT GAS TRANSPORTERS RELATIVE PRICE CONTROL REVIEW CONSULTATION

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?

1.1 Yes, we fully agree.

1.2 We agree with Ofgem's findings that the current RPC floor and ceiling have resulted in a constraining effect on IGT charges over time. This constraint will be amplified through the energy transition to net zero. The evidence clearly demonstrates that the RPC floor and ceiling are operating as an enduring constraint that suppresses efficient revenue recovery and, if left unchanged, risk undermining the future financial sustainability of IGTs and the services they provide to customers.

1.3 When the RPC was introduced, the floor and ceiling mechanism was intended to provide a limited corridor around equivalent Gas Distribution Network (GDN) charges, balancing customer protection with a degree of revenue certainty for IGTs.

1.4 In practice, however, while the floor mechanism has occasionally provided support, the level and persistence of increases in GDN charges over the last two decades mean that the ceiling has more often prevented IGT charges from moving in line with the equivalent GDN benchmark.

1.5 The result has been a sustained divergence between what an IGT is permitted to recover for providing the last-mile network and what the relevant GDN would have recovered for serving an equivalent customer base. This divergence will increase through the energy transition period.

1.6 This matters because IGTs are delivering the same core last-mile network function as GDNs and should recover a commensurate level of revenue for doing so. Indeed, Ofgem's consultation recognises that IGT customers experience fewer unplanned interruptions than GDN customers and that, where interruptions do occur, they are resolved more quickly on average.

1.7 The present framework creates an asymmetry whereby IGTs are expected to deliver equivalent, and in some respects, better services while being prevented from recovering the notional downstream cost that an incumbent can recover.

1.8 IGTs have the same obligations to ensure safe and reliable operations of their assets over their lifetime as do GDNs. They will also be under the same obligations around disconnections and the associated costs when, as anticipated, consumers move to lower carbon heating.

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

2.1 Yes, we fully agree.

2.2 We agree with Ofgem's view that the existing RPC floor and ceiling arrangements may no longer be fit for purpose in the context of the energy transition. The combined effect of rising disconnections, the structural decline in new gas connections, and the mechanical constraint imposed by the RPC ceiling creates a credible and material risk that IGTs will be unable to recover their efficient costs in the years ahead. We believe that the evidence presented strongly demonstrates the constraining impact of the RPC ceiling and floor now and in future and supports the case for change.

2.3 This position is further strengthened by wider developments in gas network regulation. Under RIIO-3 Final Determinations, Ofgem considered the changing context for gas networks, including the implications of rapidly increasing disconnections, a reducing customer base over time, and the need to accelerate cost recovery where asset lives are expected to shorten in the transition away from gas. In that context, it would be increasingly difficult to justify retaining an RPC framework that leaves IGTs unable to track the equivalent GDN recovery path. GDN charging is being adapted to reflect the realities of the transition, but IGT charging would remain artificially constrained beneath that level, meaning under-recovery faced by IGTs will intensify rather than diminish. This means that customers would be treated and charged differently over time.

2.4 The RPC framework was designed to align IGT charges with those of GDN equivalent downstream charge. In practice, GDN equivalent downstream charges have increased significantly beyond the RPC cap. This divergence has resulted in constrained revenue growth for IGTs. Although the floor mechanism has occasionally provided support, its benefits are outweighed by the frequency and scale of the cap's limiting effect. We have noted above the constraining effect that the ceiling has had on IGT charges historically.

2.5 To date, this constraint has been largely manageable for IGTs, but will not be in future under net zero, when significant cost increases will outstrip IGTs ability to increase revenue due to the existence of the ceiling. The inability to fully recover costs under the current RPC structure, undermines the financeability of IGTs and, in turn, their capacity to invest in and support future network development.

2.6 Without change to the RPC mechanism there is a material risk that some IGTs will face increasing strain in maintaining high-quality last-mile gas services, with potential implications for service resilience and ultimately for consumers, should an IGT become financially unviable.

2.7 Revising the RPC arrangements is therefore justified based on historic evidence of under-recovery and also by the need to ensure that the mechanism remains workable and sustainable going forward during the transition to net zero.

2.8 We welcome Ofgem's observation that IGT consumers do not benefit from the status quo. The difference between the IGT charge and the downstream GDN charge does not directly result in a lower charge to the consumer.

2.9 Further, due to the formulation of the price cap, which takes the GDN charge costs, we do not expect that customers of IGTs will pay more for their networks going forward as a result of the changes proposed in this consultation.

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

3.1 We partially agree.

3.2 We agree that each of the three options to reform the RPC better facilitate the objectives of the RPC review than the status quo. Each of the options provide benefits for consumers and network reliability, however we see drawbacks with Option 2b and Option 2a.

Option 1 - Full removal of the floor and ceiling (full uplift to GDN equivalent charges now)

3.3 In our view Option 1 best addresses the issues identified in the consultation and importantly does not disadvantage consumers.

3.4 IGTs provide the same essential last-mile network function so it is difficult to see a continuing justification for a mechanism that systematically prevents full alignment with that benchmark.

3.5 This is the most straightforward and transparent solution and is the most effective way to ensure that IGTs can recover the same level of revenue for operating the notional downstream network as the equivalent GDN.

3.6 Removing the floor and ceiling would therefore best address the problem identified in this consultation and would do so in a way that is transparent, durable and easy to administer.

3.7 This approach would also future proof the framework against further changes in GDN charging and wider gas network policy. As Ofgem's review makes clear, the sector is entering a period in which charging structures may continue to evolve in response to, changing asset lives, disconnections and the broader transition away from gas. In that context, retaining the floor and ceiling around the GDN benchmark risks recreating the same problem in future, even if an initial realignment is delivered now. By contrast, removing the floor and ceiling altogether would ensure that IGT charges continue to track the equivalent GDN position over time, rather than risk it repeatedly falling behind.

3.8 It would also be more consistent with the historic intent of the arrangements which was introduced in a different context and was not intended to operate indefinitely.

3.9 A durable solution is important now because IGTs continue to play a major role in connecting new developments and in providing local gas infrastructure for around 80% of new homes. This is important in the context of the Government's housebuilding targets and the acknowledgement the role IGTs play in connecting new homes. The RPC is not just a historic charging issue affecting legacy portfolios; it continues to shape the economics of networks that are being adopted and operated today.

3.10 A framework that allows IGTs to recover on the same basis as the equivalent GDN would provide greater regulatory clarity, support investability and avoid distorting decisions in the market for new connections.

3.11 Total removal of the floor and ceiling is the option most likely to provide that certainty while preserving the underlying principle that IGT charges should remain capped by the equivalent GDN benchmark.

3.12 We agree, a key objective of reform should ensure that IGTs should be able to recover costs in line with GDN downstream equivalent, meaning that IGTs should have parity in cost-recovery with GDN equivalent charging. The solution to reforming the RPC floor and ceiling mechanism, should achieve this.

3.13 We agree with Ofgem that removal of the floor and ceiling "offers a direct response to the constraint within the current RPC framework. By removing the floor and ceiling in full, it would eliminate the gap that has developed between IGT and GDN charges and restore parity from the outset".[2] Ofgem has

[2] Independent Gas Transporters Relative Price Control review consultation, page 24.

provided a strong evidence base that the ceiling disproportionately constrains revenue potential and undermines cost reflectivity which will be exacerbated through the energy transition.

3.14 Ofgem states that "removing the floor and ceiling entirely would also remove consumer protections designed to limit exposure to extreme within-period volatility". It is important that this assessment is set within the context of consumer protections within the regulatory framework. The GDN charge is set by Ofgem through the RIIO Price Control framework, acting as a control for the GDN-downstream equivalent charge. IGT Relative Price Control framework was created to ensure that the efficient frontier set by Ofgem through the GDNs' price control process, with appropriate margin for the network investment, is reflected in the IGT charges. Therefore, we do not consider that removing the ceiling entirely removes consumer protections.

3.15 Additionally, customers would continue to be protected on charges, as charges to shippers would remain capped at the GDN level. Shippers would pay no more for IGT-connected customers than for GDN-connected customers. Shippers serving IGT- and GDN-connected customers would pay broadly the same charges for each connection.

3.16 Consumers are also protected by the Retail Price Cap. The gas distribution cost allowance within the Price Cap design methodology is informed by the prices set by GDNs.[3] This means that IGT charges do not inform the Price Cap, GDN charges do, which are protected through the price control.

3.17 The nature of the Energy Price Cap means that gas network costs are averaged, without distinction between the RIIO Price Control and IGT RPC. As a result, IGT customers do not benefit from lower IGT charges, therefore, should not be disadvantaged if IGT charges equal GDN charges.

Option 2a - Adjust RPC according to RIIO changes (keeping the floor and ceiling) with an immediate uplift now to align IGTs with GDN charges.

3.18 We consider that Option 2a addresses many of the issues identified but does not fully resolve the structural constraint created by the ceiling. We expect the ceiling to continue to bind within each price control and therefore restrict IGT revenue compared to GDN equivalent, unless the ceiling and floor logic is amended.

3.19 Ofgem's consultation already recognises that the ceiling has materially constrained IGT charges and that reform is needed. Once that case has been accepted, there is limited justification for preserving a mechanism that is known to continue suppressing efficient recovery for a further period

3.20 The consultation notes that retaining the floor and ceiling in either Option 2a (or 2b) would protect against "extreme within-period volatility". In practice, the most significant changes in the benchmark have tended to arise at price control resets, rather than through unexpected year-to-year volatility within a control period. Continuing to apply the floor and ceiling would therefore risk prolonging a known problem in order to address a concern that appears overstated in this context.

3.21 Ofgem states that "the immediate uplift under this option would not help moderate the risk of a sudden adjustment for the wider gas charging system". We have addressed this point at 3.14 to 3.17.

[3] Appendix 5 - Policy and network costs_FINALISATION

Option 2b - Adjust RPC according to RIIO changes (keeping the floor and ceiling) with a phased uplift to align IGTs with GDN charges.

3.22 We consider that Option 2a addresses many of the issues identified in the consultation but does not address them fully and introduces additional complexity.

3.23 We are concerned that under Option 2B IGT revenues will continue to be constrained during the ‘transition period’ and likely thereafter, as we expect the ceiling and floor will continue to bind within the price control periods, unless the ceiling and floor mechanism are changed. Should that prove to be material, we suggest that IGTs ought to be entitled to address that under recovery in future periods in an NPV neutral way.

3.24 Analysis indicates that the “transition period” will materially constrain IGTs cost recovery during the transition period.

3.25 The constraints on IGT revenue resulting from the floor and ceiling mechanism have been well evidenced by Ofgem in the consultation. We do not therefore think it is appropriate for this to continue through a phased uplift.

3.26 We do not consider that a transition option is necessary. Customers have paid the GDN equivalent rate and there is no evidence that historically customers have benefitted from lower network charges. We do not believe that a further period of transition will result in benefits for customers.

3.27 As also noted above, Ofgem’s consultation already recognises that the ceiling has materially constrained IGT charges and that reform is needed. Once that case has been accepted, there is limited justification for preserving a mechanism that is known to continue suppressing efficient recovery for a further period.

3.28 The consultation notes that retaining the floor and ceiling would protect against “extreme within-period volatility”. In practice, the most significant changes in the benchmark have tended to arise at price control resets, rather than through unexpected year-to-year volatility within a control period. Continuing to apply the floor and ceiling would therefore risk prolonging a known problem in order to address a concern that appears overstated in this context.

3.29 If Ofgem elects to proceed with option 2b the transition period should be as short as possible; the ceiling and floor logic should be reset; and there should be a mechanism to allow IGTs to recover under-recovered revenue in future periods on an NPV neutral basis.

3.30 This option is the most complex of the three to implement, both in terms of regulation and licensing and business process.

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

4.1 We partially agree.

4.2 We broadly support Ofgem’s enhanced reporting requirements and agree that they support transparency.

4.3 At LMG, we are proud of the role that we have played as an IGT in the market, and the positive consumer outcomes that we have delivered. We welcome that Ofgem have reflected some of these benefits in its findings from its recent RfI, and the positive service outcomes received by customers from the IGT community.

4.4 We encourage, where possible, consistency of reporting format and definitions to ensure that they are aligned to existing reporting formats. We would encourage Ofgem to collate this reporting as an annual return. This will help drive efficiency in data collection and resourcing requirements. We encourage Ofgem to recognise where additional requirements and data fields, beyond those currently collect, create operational, process and system costs within a constrained ceiling and floor, especially in the context of a phased approach under Option 2b.

4.5 **Transition period**. Given that draft guidance and reporting templates are still in consultation, we would expect a clear transition period for gathering the data and the reporting requirements being implemented in the regulatory framework. We would not expect a back-dated or enforceable obligation in the first year. We would recommend a voluntary approach from year one.

4.6 Below we set out our feedback on each data point.

4.7 **Market Data**. We encourage Ofgem to ensure that market data is provided at Local Distribution Zones (LDZs), without combining zones.

4.8 **Vulnerability**. We agree that IGT reporting should include annual submissions of PSR registrations. We agree that reporting should not extend beyond this requirement. Reporting beyond PSR registrations, such as ability to pay for disconnections or 'fuel poor' would be disproportionate as such data is not included within the PSR reason codes and is therefore not shared via data transfer procedures with GTs and Suppliers.

4.9 **Shrinkage**. We disagree with the requirement to provide shrinkage data. We do not believe that this is a proportionate requirement for IGTs. IGTs would not be able to report on actuals and instead would have to introduce an arbitrary methodology. By contrast GDNs get a price control allowance for shrinkage which has historically driven a large increase in wSSPs.

4.10 **Interruptions (Planned, Unplanned and Major Incidents).** We agree with Ofgem's proposal. Such reporting will support IGTs and Ofgem in quantifying the positive consumer outcomes and the benefits of independent networks. RfI Guidance provided by Ofgem would benefit from setting out whether interruption minutes is cumulative (duration x customers) or average per customer.

4.11 **Customer Complaints**. We broadly agree with Ofgem's proposals, however this reporting should be proportionate and should not extend beyond reporting on complaints provided by other network operators or suppliers. For example, as far as we are aware, energy suppliers do not report on repeat contacts. Customer satisfaction surveys would be a disproportionate requirement. Due to low volume of complaints, we would recommend using complaints as proxy without additional reporting requirements.

4.12 **Guaranteed Standards of Performance (GSOP) and Simple and Complex Connected System Exit Point (CSEP) data**. We agree with Ofgem's proposal for IGTs to submit annual GSOP and Simple/Complex CSEP data. RfI Guidance provided by Ofgem would benefit from a definition and explanation of the distinction between 'Simple' and 'Complex' sites.

4.13 **Licence Condition D10 (Connections, Quotations and Land Enquiries)**. We agree with the proposed amalgamation of this reporting.

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?

5.1 Please see our answer to question 4. Whilst we broadly agree with Ofgem's proposals, reporting requirements for all IGTs should remain proportionate. We agree with the proposal for a consolidated annual return, however we believe that this should not go beyond existing reporting requirements. It would be disproportionate, for example, for IGTs to provide repeat complaint or CSAT data if this is not a requirement for Suppliers and other network companies. Additionally, GDNs are fully funded through price control for shrinkage. We do not believe that this is a proportionate requirement for IGTs. IGTs would not be able to report on actuals and instead would have to introduce an arbitrary methodology.

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

Change of RPI to CPIH

6.1 We acknowledge that replacing Retail Price Index (RPI) with Consumer Price Index (CPIH) within the RPC methodology will align more closely with wider regulatory practice.

6.2 However, it will have the effect of reducing the ceiling and floor values by the difference between RPI and CPIH, further constraining IGT revenue. This impact will be exacerbated by the ongoing efficiency factor, which left unchanged, will have an increasingly material impact on IGT revenues.

6.3 We note that under Option 1, this change is irrelevant.

Ongoing efficiency factor

6.4 We are concerned that the efficiency factor in the current RPC methodology results in "efficiency" being counted twice. The equivalent GDN charges that form the benchmark for RPC are already derived from a regulated charging framework in which efficiency assumptions are built into the underlying price control. Applying a further standalone efficiency factor within the IGT licence therefore risks imposing a second downward adjustment on IGT allowed charges relative to that benchmark. This creates an asymmetry that is difficult to justify.

6.5 IGTs should be subject only to an efficiency adjustment that is equivalent to that already embedded in GDN charges, rather than an additional layer of efficiency applied on top.

6.6 In our view the ongoing efficiency factor only returns a desirable outcome in scenarios where the IGT charge is on the floor, and we do not consider that a likely outturn.

6.7 In our view the ongoing efficiency factor should be removed or set to nil with IGT efficiency targets managed through the RPC framework and the annual wSSP adjustment. This is particularly relevant where the ceiling binds, as the ongoing efficiency factor increases the gap between the unconstrained charge and the ceiling, thereby exacerbating under-recovery.

6.8 If Ofgem proceeds with Option 1, this issue would not arise,

Updated RPC guidance document

6.9 We note the need to update the RPC Guidance document. We believe that a likely outcome of updating the RPC Guidance may be that all IGTs would be required to change their charging methodologies in line with the approach for either of these options. These would naturally require approval from Ofgem. These changes should be straightforward but will require internal approval prior to submission to Ofgem.