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Mr Tom Lewis
Ofgem
Network Price Controls
10, South Colonnade, Canary Wharf
London,
E14 4PU
Email: RIIO3@ofgem.gov.uk

20th July 2026

Dear Mr Lewis,

Northern Gas Networks (NGN) welcomes the opportunity to respond to the consultation on proposed changes to the RIIO-3 Biomethane Connections UIOLI Governance Document.

NGN offers conditional support of the proposal to allow Biomethane Connections UIOLI allowance to be reallocated between network areas operating under the same licence. Whilst we consider the underlying principle is sound, namely that available funding should be directed towards areas where there is demonstrable demand and where viable biomethane projects can be progressed, our support is subject to several important considerations regarding consumer impacts, fairness across the sector, charging arrangements and governance. As this is a Use It Or Lose It (UIOLI) allowance, any funding that is not utilised would otherwise be returned to consumers through future price control arrangements. Reallocating allowance therefore does not simply avoid underspend; it changes where expenditure occurs and consequently which consumers ultimately bear the associated costs.

Where allowance is transferred from one network area to another, customers within the receiving network area may fund additional biomethane connection expenditure that would not otherwise have arisen, whilst customers in the originating network area may benefit from reduced expenditure and a greater return of unused allowances. We therefore encourage Ofgem to clearly articulate the consumer benefit case for such transfers and demonstrate why the benefits of utilising the allowance outweigh the alternative outcome of the funding being returned to consumers.

We also note that, in practice, the proposed flexibility appears likely to benefit only one of the four GDNs due to differences in ownership and licensing structures across the sector. Whilst we recognise the rationale for the proposal, this creates a flexibility that is not available equally to all licensees and therefore appears difficult to reconcile with the broader RIIO principles of fairness, proportionality and consistency. If Ofgem considers that allowing funding to follow need delivers the best consumer outcome, we encourage consideration of whether a broader mechanism could be developed to permit transfers between licence holders by mutual agreement, subject to appropriate licence modifications and safeguards to protect consumers and ensure fair cost allocation.

In relation to the operation of the mechanism, Ofgem should provide further clarity on how reallocated allowances will interact with existing connection charging principles and Special Condition 4B methodologies. Any reallocation should not alter customer contribution arrangements, weaken cost-reflective charging signals or create unintended cross-subsidies between network areas. We would welcome confirmation of how allowance transfers will be reflected within connection charging statements, regulatory reporting, cost attribution and future cost recovery arrangements.

Robust governance and transparency will be essential: Where allowance is reallocated, licence holders should maintain a clear audit trail demonstrating the allowance moved, the network areas affected, the projects supported and the

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resulting consumer benefits. This information should be capable of reconciliation through regulatory reporting and available to support future regulatory review.

Finally, we encourage Ofgem to consider how pooled allowance arrangements would be treated in the event of future changes to network ownership or licensing structures. Whilst such changes may be unlikely during RII0-3, the proposed modification establishes a precedent whereby allowances can be utilised at licence level rather than solely within the network area to which they were originally attributed. The final framework should therefore establish clear principles for apportionment, transfer and reconciliation where:

- Allowance attributed to one network area has already been used to support projects in another network area.
- Expenditure or commitments have been made on a licence-wide basis, making historic attribution more complex.
- A transferring network area has either contributed to, or benefited from, pooled allowance prior to any transfer of ownership or licensing arrangements.

Providing clarity on these matters now would improve regulatory certainty and reduce the potential for future disputes.

In conclusion, NGN supports the principle of allowing biomethane UIOLI funding to be directed towards areas where it can deliver the greatest benefit. However, before implementing the proposal, Ofgem should demonstrate the consumer benefit of reallocating funding rather than returning it to consumers, address the implications of creating a flexibility available to only a subset of licensees, and provide greater clarity regarding charging, reporting and governance arrangements.

Yours faithfully,



Tracey Saunders
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