

NGN Response to RIIO-3 Interim RRP and PCFM Guidance Consultation

All items noted in this response have been generated based on the 3 February 2026 RIIO-GD3 licence values incorporated into the associated RRP Interim Revenue tables. We note that these may be subject to change following the post licence-snagging process and the CMA Ongoing Efficiency appeal.

As part of NGN's consultation response, we have also provided an annotated version of the RIIO-GD3 Interim revenue RRP, which may aid understanding when read in conjunction with this response. On the Excel file, the yellow highlighted cells indicate errors pertaining to that specific cell, and where possible, we have suggested corrections to formulae on the right-hand side of the original formulae.

Key Issues

PCFM GUIDANCE

Paragraph 4.4 Table, p.19, 'Other Revenue allowances' header.

For VCMA, the PCFM Guidance states that 'licensees should ensure that the validation check in the GD3 RRP remains TRUE for each GD3 year'.

We have highlighted in the section below, and previously, that the current VCM_t formulas do not prevent the excess $VCMCSt_t$ (company specific allowance) from being used twice. This means a VCM_t allowance could be generated that exceeds the sum of the expenditure caps for the three different types of VCMA expenditure. For this consultation, we have provided suggested corrections to the formulae for this special condition, that resolve this issue and potentially remove the need for this stipulation in the PCFM Guidance.

It is important to note that the requirement for licensees to ensure the validation check for these currently incorrect formulae remains true, hypothetically, could be achieved only if licensees were to restrict their actual VCMA expenditure. However, this would not work in practice, given SpC 5.4 utilises formulas which place constraints on the allowances we can earn, but it does not, anywhere, place restrictions on our actual company expenditure.

RIIO-3 INTERIM RRP TEMPLATE

UniversalData Tab

Financial year average (CPIH), CPIH real prices (2023/24 price base) to nominal prices conversion factor, and CPIH nominal to real prices (2023/24 price base) conversion factor, rows 19-27

The financial year average CPIH data reported on C20:C27 is incorrect. In turn, the real-to-nominal (D20:27) and nominal-to-real (E20:E27) conversion factors, which are derived from this data, are also incorrect. We have put the correct data and conversion factors in I20:L27 on our annotated revenue RRP Excel file.

2.01 Revenue – PCDs

Cyber Resilience Use it or lose it allowance [All except NGN and WWU] and Cyber Resilience Use it or lose it allowance [NGN], SpC 3.2, rows 21-33.

The SUMPRODUCT formulas utilise the same $CYAU_t$ allowance term in both sections. Therefore, inputting $CYAU_t$ in the 'License Values Data Table' tab results in both allowance terms being populated in rows 23 and 31, which feed into the '3.01 Revenue – PCFM Interface' on rows 69 and 70. If this is left unresolved, our Totex allowance and hence Allowed Revenue would be overstated.

We suggest that instead of using $CYAU_t$ as the conditional term in the SUMPRODUCT formulas, use the parameter name, and change the name to something that differentiates between the two distinct Cyber Resilience UIOLI blocks. E.g., 'Cyber resilience UIOLI allowance [All except NGN and WWU]' and 'Cyber resilience UIOLI allowance [NGN]' in cells A23 and A31, respectively. This is the approach taken with many of the other SpCs on this tab, e.g., SpC 3.10, SpC 3.11, etc.

Biomethane distributed entry reinforcement use it or lose it allowance, SpC 3.21, rows 143-147

The SpC 3.21 Biomethane Distributed Entry Reinforcement UIOLI allowance of £20m over the entire price control period has been corrected from the previous template which included £20m each year. However, paragraph 4.12 of RIIO-3 Final Determinations – Gas Distribution states, 'Each network will have a RIIO-GD3 UIOLI allowance of £20m, with £4m available each year'. A corrected formula would be $=\$F\$145/5 - F146$.

We also note that the adjustment should be '*Value to be forecast by the licensee (or directed by the authority)*', to enable GDNs to return funds to customers if the allowance cannot be utilised.

2.05 Revenue – ODI

Collaborative Streetworks ODI, SpC 4.5, rows 203-215

The maximum incentive cap, $CSCWC_t$, on row 213 includes £15.02m in each year. NGN's £15.02m figure agrees to the licence (SpC 4.5, Appendix 1); however, this is for the full GD3 Price Control rather than an annual figure. This means the sum of $CSCW_t$ over GD3 can exceed the £15.02m maximum incentive cap. To correct this, we would suggest a cumulative price control comparison to the allowance.

2.06 Revenue - ORA

Network Innovation Allowance, SpC 5.2, rows 17-29

While the current iteration of the NIA_t formula is now realigned with the GD2 formula, circumventing the previous issue where all annual allowances were removed once the cap was exceeded, it doesn't incorporate the premise that NIA_t is a full price control allowance, not an annual allowance. In every annual cell (E28:I28), the formula is $0.9 * \$E25$. This constrains each year's NIA_t allowance to 90% of $NIAE_{2026/27}$, which is inconsistent with both the licence formulas and the policy intent of this SpC.

Rather than the TRUE checks on row 29, the formula can be improved by capping the spend once the maximum allowance has been met. We suggest the following formula, that can be dragged across all relevant columns:

$$\begin{aligned} &= \text{MIN}(\$E\$27, 0.9 * \text{SUM}(\$E\$25:E25)) \\ &\quad - \text{MIN}(\$E\$27, 0.9 \\ &\quad * \text{IF}(\text{COLUMNS}(\$E\$25:E25) \\ &\quad = 1, 0, \text{SUM}(\$E\$25:\text{INDEX}(\$E\$25:\$I\$25, 1, \text{COLUMNS}(\$E\$25:E25) - 1)))) \end{aligned}$$

Vulnerability and Carbon Monoxide Allowance, SpC 5.4, rows 55-97

Currently, the surplus of the company-specific allowance versus spend can be utilised for both the collaborative pot and the cross-utilities pot, leading to a potential risk of double-counting. In the Excel RRP file submitted with this response, we have included an alternative set of formulae for calculating this SpC, together with an explanation of how they work and resolve this issue.

Another potential issue, which is tangential to the double-counting problem, is that collaborative spend is currently prioritised over cross-utilities expenditure merely because of the order with which the blocks are presented on this tab. We suggest that Ofgem introduces some new formulae in the RRP and the SpC, which would allow GDNs to choose which VCMA expenditure type is prioritised.

2.08 Revenue – Recovered Rev

Compared to the GD2 table, this tab appears to be missing the following key lines, which we suggest should be re-inserted to understand the calculation of BDA_t :

- Provisional Bad Debt cost
- Actual Bad Debt cost incurred
- Interest Income accrued adjustment

Other Items

PCFM GUIDANCE

In relation to the RIIO-GD3 PCFM Guidance and RIIO-GD3 Interim Revenue RRP, published with this consultation on 26 May 2026, we have the following other items that we believe require consideration.

Section 3. The GD3 Price Control Financial Model

Paragraph 3.5 Table, p.11, Calculation sheets header. ‘NonCore’ is listed as one of the calculation sheets in the PCFM. This sheet does not exist in the GD2/GD3 PCFMs. Based on the order these sheets are presented and that ‘FuelPoor’ is a valid calculation sheet in GD3 PCFMs yet is missing in this section, we suggest replacing ‘NonCore’ with ‘FuelPoor’.

Section 4. Instructions for Completing the PCFM Variable Values

Paragraph 4.4 Table, p.14, Price Control Deliverables header. ‘Welling PRS – Full Site Rebuild’ and ‘London Medium Pressure PCD’ are not in NGN’s licence and hence do not apply to us. We suggest that Ofgem put the relevant licensees that these variant totex allowances apply to in parentheses, as is the convention taken with the other PCDs, e.g., ‘South London Mains PCD (SGN)’.

Paragraph 4.4 Table, p.16, Re-Openers header. In the right-hand column of this section of the table, re-openers are described as adjustments to allowances ‘based on an application by the licensee’. This description does not account for certain re-openers, where the Authority can trigger a re-opener adjustment, e.g., SpC 3.3 Physical Security Re-opener. We suggest changing the wording to ‘based on application by the licensee or Authority direction’.

Paragraph 4.4 Table, p.19, ‘Incentive revenue (Output Delivery Incentives)’ header. SpC 4.5 is referred to as ‘Collaborative Streetworks ODI (Cadent Lon & EoE, SGN So only)’. This SpC applies to all GDNs, NGN included. Therefore, “(Cadent Lon & EoE, SGN So only)” bracket should be removed.

Paragraph 4.4 Table, p.19, ‘Other Revenue allowances’ header. The right-hand side column should specify which tab of the RRP the licensees should enter these inputs, as is the case for other allowances, e.g., ODIs, Pass-

Through Costs, etc. We suggest the following wording: 'For the yellow input cells on the '2.06 Revenue – ORA' tab, licensees should ...'.

Paragraph 4.4 Table, p.20, 'Directly remunerated services' header. The right-hand side column states that data should be inputted on the '2.08 Revenue – DRS' tab. On the revenue RRP sheet, published with this consultation, DRS is on sheet '2.09 Revenue -DRS'. The text should be amended accordingly.

Paragraph 4.4 Table, p.21, 'iBoxx Trailing Average (IBTArt)' header. The right-hand side column uses the incorrect term 'IBTA' for the iBoxx Trailing average. The PCFM term should be corrected to align with the PCFH.

Paragraph 4.4 Table, p.24, 'CPIH Forecast (financial year) - FYCPIHt' header. The PCFH uses the term 'FYCPIHt' for this parameter. However, the PCFM Guidance and 3 February 2026 PCFM use 'FYCPIHt'. Given that the PCFH takes precedence over the PCFM and PCFM Guidance, the PCFH term is presumably correct; however, could Ofgem provide clarity on the correct term for this parameter, and update the PCFM Guidance accordingly?

RIIO-3 INTERIM RRP TEMPLATE

License Values Data Table Tab

There are a significant number of small errors on this tab. We have not included the full details here as each error is highlighted in yellow and with a comment on the corresponding tab in our annotated Excel file. We categorise these errors as follows:

Unit errors. For example, using '£m 23/24 prices', when the correct unit is '£ 23/24 prices'. These errors are located on column C, rows: 462-465, 475-477, 479, 486-491, 494-495, 517, 520-21, 523, 525, 527, 529-532, 534, 541, 547, 549, and 557.

Incorrect terms

These errors are located on column B, rows: 473-474, 480-485, 486-491, and 554-556.

Incorrect names

The unit costs of simple and complex disconnections on A494 and A495, respectively, are both called 'Allowance'. To avoid any confusion, Ofgem should change these names to as they are in SpC 3.18 of the licence or tab '2.02 Revenue – Volume Drivers' (cells B12 and B15) in the RRP.

Cells A496:A498 refer to 'Specific matrix costs in respect of diameter band n ...' for each element in n . Although these cells reference their respective diameter bands in brackets, each cell refers to 'diameter band n '. Each cell is an element of the set $n = \{1,2,3\}$, not the set itself. Therefore, to avoid confusion, for each cell in the given range, we request that Ofgem replaces ' n ' with the element of n the cell corresponds to. E.g., 'Specific matrix costs in respect of diameter band **1** (>8<10 inches)' [cell A496].

Other

The target number of vehicles for SpC 3.9 ($OTEV_n$) is missing from cells E480:E485. We understand that Ofgem has noted that the licence algebra for this licence condition is under review; therefore, the missing data does not affect any outputs in the workbook. Still, we have included this point for completeness.

The Decarbonisation Project Development Fund UIOLI allowance values in cells F499:J499 agree to the licence. However, their sum over the price control of £7.98m is lower than the reported sum in SpC 3.5, Appendix 1 of the licence (£8.28m). We request that either the licence's annual breakdown of this allowance is updated to total £8.28m, or the total allowance value provided in the licence is changed to £7.98m.

As the names, units, terms, and values are repeated across the remainder of the tabs, we would request that the other tabs are reviewed to ensure consistency.

2.01 Revenue – PCDs Tab

Rows 38, 80:83, 101:102, 121, 123, 128, and 137

The redacted information inputs are hardcoded as zero. Instead, these cells should link back to the ‘License Values Data Table’ tab, irrespective of whether this information is redacted or not.

We suggest that Ofgem uses the SUMPRODUCT formula it has used throughout this workbook for linking these rows back to the ‘License Values Data Table’ tab.

Operational Transport Emissions Reduction PCD, SpC 3.9, row 61.

We would like to note that the 3 Feb 2026 PCFM figures for OTE_t total £4.8m and are incorrect. These figures were updated in the 24 February 2026 RFI file (Version 3.5) and total £0.99m. We request that Ofgem ensures that the newest PCFMs are consistent with this file.

While we acknowledge that Ofgem have stated that the algebra for this SpC is under review, we have a few suggestions:

The licence formula for OTE_t is detailed in paragraph 3.9.3 of the licence:

$$OTE_t = \left(\sum_{n=1}^{[X]} OTEU_n * \min(OTED_n, OTEV_n) \right) \frac{OTEA_t}{\sum OTEA_t} \quad (1)$$

We have implemented this formula in cells L53:U83 in the annotated revenue RRP Excel file provided with our consultation response. The only change we have made relative to the licence is that we have multiplied the right-hand side of Equation (1) by 10^{-6} . We have done this because the unit costs, $OTEU_n$, are reported in £ 23/24 prices as per SpC 3.9, Appendix 2. Failing to do this results in figures denominated in the hundreds of thousands for OTE_t , which is specified in £m 23/24 prices. We suggest the licence should be updated to reflect this.

For linking inputs, we have used the same SUMPRODUCT formula that is utilised throughout this document. Therefore, the inputs of all networks can be linked.

2.02 Revenue – Volume Drivers Tab

Tier 2A mains and service replacement volume driver, SpC 3.12, cells F22-J27. These cells are hardcoded as zero and should, instead, link back to the ‘License Values Data Table’. We suggest that the SUMPRODUCT formula is used to link these cells, as is the case for most of the other formulas in this workbook.

2.03 Revenue – Re-openers Tab

Mandated Category 3 Security Re-opener, SpC 3.30, row 96. This re-opener does not exist in NGN’s SpC Licence. Instead, SpC 3.30 is stated as ‘not used’. To avoid confusion, the relevant licensees that this SpC applies to should be included in parentheses next to the name on row 96, as is the convention taken with the other SpCs in this workbook and the licence more generally.

2.05 Revenue – ODI Tab

Collaborative Streetworks ODI (CSWt) [Cadent Lon & EoE, SGN So only], SpC 4.5, rows 203-215. As we stated in Paragraph 0 in relation to the PCFM Guidance, the name of this term, on row 203, is incorrect. This SpC applies to all GDNs, NGN included. In turn, ‘[Cadent Lon & EoE, SGN So only]’ is not necessary in the name.

2.06 Revenue – ORA Tab

Vulnerability and carbon monoxide allowance, SpC 5.4, rows 55-97. The terms in cells B70 and B81 are time-subscripted; however, in the licence they are not. We suggest that Ofgem aligns these terms to match the licence.

Minor Items

In relation to the GD3 PCFM Guidance and RIIO-GD3 interim revenue RRP, published with this consultation on 26 May 2026, we have the following minor points raised by way of completeness:

PCFM GUIDANCE

Paragraph 2.6 begins with ‘For the reporting period ending 31 March 2026’. It may be helpful to rephrase this text to reflect that the 2026 AIP focuses on forecasting 2026/27 performance, rather than reporting on 2025/26. To avoid any confusion, we suggest changing the wording: ‘For the purposes of the AIP in 2026, ...’.

Paragraph 4.4 Table, p.19, Incentive revenue (Output Delivery Incentives) header. SpC 4.6 is referred to as ‘7 and 28 day Repair Output Delivery Incentive’, the name in the licence is ‘7 and 28 day repair **standards** output delivery incentive’. The RRP should be updated to ensure consistency with the licence.

Paragraph 4.4 Table, p.20, ‘Legacy Adjustments’ header.

We suggest that Ofgem changes ‘SoLr’ to ‘SoLR’.

This section refers to ‘Structures and Buildings Pool Additions (GD3) Plus Opening Balance at Start of GD3’ and ‘Deferred Revenue Pool Additions (GD3) Plus Opening Balance at Start of GD3’. These are the correct terms; however, we would like to remind Ofgem that the latest 3 February 2026 PCFM uses GD2 in place of GD3 for these parameters. These terms should be corrected in the next publication of the PCFM.

RIIO-3 INTERIM RRP TEMPLATE

License Values Data Table Tab

On Cells E486:E491, the unit costs of each vehicle for SpC 3.9 ($OTEU_n$) is redacted information. Therefore, the format should be an orange fill to these cells, as is the convention taken with other redacted inputs in this tab.

On cell C542, the given unit for TIS is %. Therefore, Ofgem should format the TIS values on F542:J542 as %.