SGN

St Lawrence House

Station Approach

Horley

RH6 9HJ

Matthew Chambers
Gas Distribution Policy Team
Ofgem

By email to: matthew.chambers@ofgem.gov.uk

22nd May 2026

Response to Update of the Independent Gas Transporters Relative Price Control

Thank you for the opportunity to respond to the above consultation[1]. Whilst not directly impacted by the IGT Relative Price Control (RPC) mechanism, given the relative relationship of the RPC to our own RIIO price control, SGN has provided comments in the below Annex in response to the consultation questions raised.

SGN supports the principle of ensuring that the RPC mechanism maintains a fair and effective level of charges for all customers, whilst ensuring that IGT organisations remain stable and financeable. Many of the challenges facing the Gas Distribution Networks (GDNs) are also facing the IGTs, such as the potential for increasing numbers of disconnections (albeit over a differing timeline) and the need to balance cost recovery with affordability. Such topics have formed a significant part of discussions throughout the RIIO-GD3 price control period and are in continued development between Ofgem and the GDNs.

However, whilst SGN agrees with the case for change to RPC articulated in the consultation response, given the change in industry environment and the challenges faced by the sector, we consider that the preferred solution is sub-optimal, as it does not ultimately address the existing or emerging challenges. Further information can be found in our detailed responses to the consultation questions, in the Annex.

Should you have any questions or wish to discuss further, please do not hesitate to contact me at David.Handley@SGN.co.uk

Yours sincerely,

David Handley

Director of Strategy and Regulation,

SGN

---

[1] Update of the Independent Gas Transporters Relative Price Control

Annex: SGN Responses to Consultation Questions

1. **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?**

The RPC floor and ceiling were designed to have a constraining effect on IGT charges in the event that an upper or lower restriction were required. However, SGN agrees with the position articulated in the consultation that over time, the RPC ceiling in particular has constrained IGT charges, with the implication that such constraints have not been aligned in nature with those it was designed to apply.

It is unclear from the consultation whether such constraints have been material and impacted IGT revenue to the point of placing their financeablity at risk, however based on the data shown in Figure 2 of the consultation[2], the emergence of this risk could be a reasonable assumption. We acknowledge that more specific information to demonstrate this risk may have been provided to Ofgem on a confidential basis.

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

SGN agrees that there is a case for reviewing the RPC floor and ceiling.

The RPC mechanism has been in place for over 10 years, during which time industry charges have not necessarily followed the trend expected at the point at which the mechanism was designed, and the relative market share of IGT networks has significantly increased. As a result, the divergence between IGT and DN equivalent transportation charges, and thus the constraining effect of the RPC ceiling, is apparent. Furthermore, the RPC is not adequately designed to accommodate challenges articulated in the consultation document such as increasing disconnection volumes, and the application of accelerated depreciation to new GDN assets. As such, a review of the RPC floor and ceiling is appropriate.

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

SGN does not agree with the proposed Option 2b approach, primarily as (i) there is insufficient visibility in the consultation document that full alignment of IGT and GDN charges is the appropriate outcome, and (ii) the case for change would appear to justify a review of the RPC mechanism itself, rather than maintaining the mechanism and simply re-calibrating the floor and ceiling. We discuss each of these points as follows:

(i) Challenges in Aligning IGT and GDN Charges

IGTs and GDNs are not directly comparable organisations, and as such their respective charges may also vary. For example, the relative age of pipeline infrastructure is far newer in the case of IGTs, and as such the equivalent operational costs relating to maintenance and repair could reasonably be assumed to be less than the equivalent expenditure on the GDN networks. Similarly, due to the physical distribution of assets, GDN infrastructure is likely to be significantly more integrated, which can add complexity in operational activities and again drive divergence in expenditure. Lastly, the consumer base of the respective organisations will also vary, with GDNs typically supplying a mixed demographic (which itself varies greatly between Local Distribution Zone (LDZ) and GDN network) while IGTs may focus on purely domestic, Industrial and Commercial (I&C), or both (and such focus again may vary between IGTs).

It should also be noted that the application of significantly different economic regulations will also drive different behaviours in GDNs and IGTs. As acknowledged in the consultation document, the GDNs are subject to the RIIO price control mechanism, much of which is focussed upon driving efficiencies and ensuring high levels of service and good value for money for our consumers. The RPC floor and ceiling, whilst appropriate at the point of design and inclusive of an element of ongoing efficiency, is far more simplistic and does not align funding and performance in the same way.

[2] Figure 2: Actual path of IGT charges showing a 2004 entrant to RPC constrained within the floor and ceiling, p12

(ii) Case for Reviewing the RPC Mechanism

As per our response to Question 2, SGN agrees that a case for reviewing the RPC floor and ceiling has been identified. However, the incomparability of IGTs and GDNs, the relative expansion and maturity of IGT organisations in the sector, and the performance and real-time changes to market conditions would in our view necessitate a review as to whether the RPC floor and ceiling mechanism remains appropriate. Retaining the mechanism despite the acknowledged change in circumstances and simply aligning the charges to that of the GDNs may temporarily alleviate a degree of the IGT revenue challenges but would not result in any improvement to the appropriateness of the economic regulation of the IGT organisations.

Furthermore, there are acknowledged challenges facing the sector in terms of increasing disconnection volumes and recovery of assets over a potentially constrained lifespan. The RPC (along with RIIO) does not adequately address these challenges and therefore does not safeguard consumer costs and/or IGT financeability as it was designed to do, and as such an updated mechanism would be a preferrable outcome.

To summarise our response to Question 3, rather than opting for Option 2b, it would seem more appropriate to review the alignment of the RPC with the desired industry and regulatory outcomes, and to consider developing a more appropriate funding mechanism based on the prevailing conditions.

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

SGN agrees. Given the market share which IGTs now represent, and the relative maturity of IGT organisations, it is appropriate that a greater level of data granularity is in place.

In particular given the anticipated increase in connections and subsequently disconnections from the IGT networks (shown in Figure 4 of the consultation document[3]), visibility of the numbers of both should explicitly be reported in order to inform an industry-wide view of consumer behaviour.

5. 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?

SGN agrees that proportionality should be maintained in any new reporting requirements, and certainly a phased adoption would likely benefit the IGTs when implementing the new arrangements.

In relation to the larger, more established IGT organisations, we would expect a high degree of data quality to be in place, with equivalent assurances also required, such as the Data Assurance Guidance which applies to the electricity Distribution Network Operators (DNOs) and GDNs. Proportionality can be maintained in terms of the amount of data required, but the quality and assurance should be at a comparable level.

In relation to the smaller, or newer IGT organisations, again proportionality is key, and therefore a lower level of reporting (with equivalent assurance activities, albeit not necessarily to the DAG level) may be appropriate, with sampling and audits on an ad hoc basis.

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

SGN is broadly supportive of the proposed maintenance of the Ongoing Efficiency Factor, although noting that it is not equivalent to expectations set in the RIIO price control.

[3] Figure 4: IGT total connection number forward looking forward projections based on the RFI return