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26 August 2025

Dear Jonathan

### **Response to Ofgem's RIIO-GT3 Draft Determination for National Gas Transmission**

I am writing to you as an accompaniment to National Gas Transmission's (NGT's) formal response to Ofgem's RIIO-GT3 Draft Determination (DD).

As I have said before, I very much value the effective working relationship we have enjoyed with Ofgem, and that I have enjoyed with you personally over the years. We remain committed to that relationship and intend to work with you to ensure that there is a full and clear understanding of our investment proposals. I look forward to that continued collaboration to ensure that our investment proposals are assessed carefully and fairly as we progress to Final Determination (FD) and towards an outcome that serves the interests of both energy consumers and the country as a whole.

Therefore, I want to express how deeply concerned I am with the current DD proposals, and what they would mean, not simply for NGT, but for Great Britain. It is difficult to reconcile how Ofgem's DD proposals support our shared goals for gas transmission. As they currently stand, the proposals would prevent us from operating and investing effectively to ensure that we can continue to deliver a secure and resilient energy system.

As you are aware, our RIIO-GT3 Business Plan was shaped by stakeholders and judged to be high quality by Ofgem. It is a plan that reflects the vital role we currently play, and will continue to play, at the heart of energy security for years to come. The investments submitted were prudent and targeted, and needed especially to address ageing assets, changing usage patterns<sup>1</sup> and a host of legal and regulatory security requirements. Just as I said in our plan, there was no gold-plating. In setting out these investments we have been mindful of the need to minimise bill impacts; consequently, our plan costs the average domestic consumer £10 per annum. I believe this represents excellent value for money for the system resilience benefits we would offer.

Our RIIO-GT3 Business Plan baseline was £3.97bn. The DD proposes a reduction of £1.51bn (38%), which amounts to the largest amongst the network operators. Of the proposed reduction, £0.95bn is from a cost challenge. This means that, under the proposals, we would receive less than half the funding we requested for asset health and IT&T projects, along with major reductions to cyber project and overhead costs.

Whilst I am cognisant of the challenge Ofgem faces in balancing the need for major investment in safe, secure, and resilient networks while minimising the impact on consumer bills, I would urge you to carefully reflect on the implications of such a significant underinvestment in the National Transmission System for customers, consumers, and the country.

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<sup>1</sup> As I mentioned to the GEMA RIIO-3 Committee on 29 April 2025, evolving supply and demand side changes have dramatically changed gas flows in the network and the way we use our assets. In this context we need to have healthy and resilient assets to ensure we can continue to meet the needs of customers, consumer and the country.

In response to the DD consultation, we have provided an evidence-based response, supplying new information where relevant and proposing solutions aimed at delivering an outcome that not only protects consumers' interests but also enables the safe, reliable, and resilient operation of Britain's primary energy supply now and into the future.

**Concern 1: the level of reductions applied to our baseline total expenditure will impair our ability to maintain a safe, reliable, and resilient network.**

I am disappointed that the current DD proposals significantly reduce our investment. The baseline reductions amount to around half for network asset health, cyber security and our Information Technology investments. As my teams and I have reviewed the proposals, we have come to the view that the cuts are based on incorrect calculations, assumptions, and flawed methodologies, or that they are inconsistent with established industry and in some cases, even Ofgem's own guidance.

I am concerned that, should these significant reductions remain unchanged, we will not be able to return asset risk on the network to the levels at the start of RIIO-T2 within a reasonable timescale. As you will recall, this was a standard agreed at our Resilience Summit in May 2023 and subsequently endorsed by the DESNZ Energy Security Committee in 2024. Our Business Plan sees us achieving RIIO-T2 network risk levels by 2032 by keeping increases in RIIO-GT3 to an absolute minimum. However, the DD, as it stands, will not deliver a critical resiliency standard underpinning the government's own energy security objectives.

I am also concerned that we will be unable to respond effectively to new cyber threats or run the support systems and functions to deliver our commitments to our customers and the country, and drive efficiency. I firmly believe that the risk to customers of over-funding is low given the mechanisms and levers at Ofgem's disposal to claw back or share out-performance. The opposite is true when it comes to the risks of under-funding. These risks are very serious – with an asset failure having the potential, through system inter-dependencies, to drastically affect electricity customers as well as gas customers. This is not something that I would wish to preside over, and I am sure you share this sentiment.

I believe our remedy to the DD proposals is clear: we must see the restoration of our proposed investments based on the evidence in our business plan and the further clarifications and material presented as part of our DD response.

*We ask Ofgem to revisit its proposals, reinstate the volumes and costs based on the strength of both our business plan and the clarifications and evidence presented in our DD response.*

**Concern 2: the gap between Ofgem's proposed return and market evidence creates an investability risk.**

We welcome Ofgem's focus on investability, and the need to strike a fair balance between attracting capital and ensuring value for money. Where we diverge, however, is our positions on a fair reward for equity investors reflecting the risks they bear. If this is under-called – as we think it is – it will be very challenging to attract funding to support the investment which delivers value for money.

As we have set out in our response, a comprehensive set of cross-checks consistently point to a higher cost of equity with firm evidence that the Total Market Return (TMR) should be increased as it falls below the long run average despite a period of high interest rates. While I appreciate Ofgem's acknowledgement that gas networks experience higher borrowing costs due to the risks faced, I would encourage you to look again at the market data which suggests that the risk has been under-priced.



Lastly, the DD proposals – in the round – do not offer a balance of overall risk and reward. There are more risks of downside than opportunities to perform well during RIIO-T3. This is due to the Totex challenge, the shortfall in allowed returns, the mis-calibrated incentive schemes and an ongoing efficiency target that is out of line with long-term economy-wide productivity trends. If not addressed, investors will face unrewarded risk, reducing their interest in investing, and ultimately harming consumers.

*We ask that Ofgem considers afresh the cross-check evidence, which indicates a misalignment between the cost of equity and the risks that investors bear. We believe that this can be remedied by adjusting upwards the TMR. The asymmetry of risk should be dealt with 'at source' by reversing unsubstantiated cost reductions, calibrating incentives to drive improvements in service, and setting ongoing efficiencies at a level appropriate for the gas sector and more in line with observable trends.*

**Concern 3: aspects of Ofgem's approach to the DD are incomplete or unclear. We are relying on further engagement to ensure we fully understand and can respond comprehensively.**

We have reviewed all the documents supporting the DD made available to us. In many cases, there has not been enough detail to explain why our proposed costs and volumes were reduced, requiring us to follow up for clarification. Some of these discussions—such as those with Ofgem's IT consultants—have occurred extremely late in the consultation period, despite our request for early meetings. In some areas, we still do not understand Ofgem's rationale—for example, the decision to halve and then cap our risk and contingency allowances at 10%, which overlooks project-specific risk assessments. We are also concerned that significant reductions have been made based on partial reviews. Around just half of our IT projects have been reviewed, for example. While we have done our best to give a full response, under these circumstances, we will need to keep working with your teams into September to address any remaining gaps and to understand and respond to any major changes in Ofgem's position.

## **Conclusion**

In my letter to you of 11 July 2025, I highlighted that we had identified a theme in the DD about challenges created by the medium to long term future of gas, particularly in respect of the recoverability of historic and ongoing investment in the event of lower gas demand. I was concerned that this had subsequently manifested in Ofgem adopting a risk averse approach in considering our proposed investment – the implication being that this would be perceived as investing in a sector in decline. I am pleased that, through our engagement with your senior teams, Ofgem has confirmed that there is no concern about increasing allowances for gas transmission, as long as it is justified, with the view being that we play an important role in security of supply and in enabling clean power.

With that in mind, I believe, and would hope you agree, that there is sufficient common ground between us that we are able to arrive at an outcome that is based on the evidence reasonably available, and which is consistent with Ofgem's statutory duties. An outcome that not only protects consumers' interests but also one which enables the safe, reliable, and resilient operation of the Britain's primary energy supply now and in the future.

I would be pleased to meet you to discuss our formal response and would value hearing your views on the specific concerns I have raised.

Your sincerely

A handwritten signature in black ink, appearing to read 'Jon Butterworth', is written over a light blue horizontal line.

Jon Butterworth  
Chief Executive Officer