national gas transmission

RIIO-GT3
2026 – 2031

Draft Determination

Executive summary

A summary of our response to Ofgem's Draft Determination for our RIIO-GT3 Business Plan 2026-2031

August 2025 v1
Official – For public release

National Gas Transmission (NGT)

Response to RIIO-GT3 Draft Determination

Introduction

1. In December 2024, we submitted our £3.97bn RIIO-GT3 Business Plan, which amounts to £5.3bn with uncertainty mechanisms. The total annual cost of our plan for domestic consumers is £10 yearly which is less than 1 percent of a typical dual fuel bill and translates to less than 3 pence a day. This is an increase of less than £2 per annum compared to the average annual bill in RIIO-T2 of £8.54.

2. Our plan was shaped by stakeholders and supports Ofgem's own RIIO-GT3 goals, especially around delivering secure, resilient infrastructure for a low-cost transition to net zero. We find it difficult to reconcile these goals, and Ofgem's stated ambition to 'protect, build, change and deliver' with the proposals in the Draft Determination (DD). Our baseline funding is proposed to be reduced by 38% which falls considerably short of delivering the energy system that our stakeholders, our consumers and the country require.

3. We are concerned that Ofgem's proposed cuts—especially to asset health, cyber, information technology and telecoms (IT&T), and business costs—will impair our ability to run a safe, reliable, and resilient network and meet cyber security standards for our customers and the country. Without sufficient investment now, ageing assets could fail, leading to unplanned interruptions, network constraints and safety risks. To prevent this, we need a step change in RIIO-GT3 in asset health activity, including strategically planned maintenance, refurbishment, and replacement activities. Today's volatile security environment also demands that we manage evolving threats, as required by regulation.

4. 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. This is despite Ofgem having mechanisms, like Price Control Deliverables (PCD), to adjust funding later, meaning the risk to customers from overfunding is low.

5. Customers face serious risks, however, in the event of underfunding. We will not be able to maintain the same level of asset risk on the network, respond effectively to new cyber threats, or run the support systems and functions to deliver our commitments to our customers, and drive efficiency. There is also a real investability concern due to the gap between Ofgem's proposed return and market evidence.

6. Our remedy to the DD is clear—our proposed investments need to be restored based on the evidence in our RIIO-GT3 Business Plan and the further clarifications and evidence presented as part of our DD response. We believe these solutions are required so that the Final Determination (FD) reflects an outcome based on the evidence reasonably available, which protects the interests of consumers and the nation's energy security, and which is consistent with Ofgem's regulatory and statutory duties.

The National Transmission System (NTS) is – and will be - critical to the delivery of energy security, system flexibility, and protecting renewables in a decarbonised energy system.

7. The NTS is Britain's primary energy system with nearly 5,000 miles of high-pressure pipeline running from Scotland to Devon. It serves half a million businesses, over 30 power stations, and more than 24 million homes. Through the NTS, we make sure that gas gets to where it is needed safely, securely, and reliably. Annually, the NTS transports an average of 72 billion cubic metres (787 TWh) of gas which is about three times the energy transported through the country's power networks at just under a tenth of the cost.

8. The NTS provides extraordinary flexibility to maintain energy security. When demand is high or supply from wind and solar power is low, gas-fired power generators, supplied by the NTS, are called into action to 'keep the lights on.' These power stations provide firm, dispatchable back-up power, and will continue to do so well beyond 2030 as recognised by the National Energy System Operator (NESO) and the Government's Clean Power 2030 (CP30) plan.

9. The transmission system is a crucial enabler of this power and is, therefore, integral for energy security. Even if average annual gas volumes on our system trend down, we still need to maintain the system to support gas-fired power stations at moments when gas demand peaks. We will also need to respond at shorter notice to larger swings on the gas system – a pattern of usage which will require investment. This is one of the overall system costs which will be needed for a resilient clean power system.

10. We believe that the critical role of the NTS both today, and in the future, is undeniable. The latest Future Energy Scenarios (FES), produced by the NESO shows a role for gas in all scenarios, with usage of our network remaining largely stable across their 10-year forecast. Indeed, in the scenario used for planning system resilience, it will even increase by the end of this decade.

11. There are various pathways to achieve net zero by 2050 but, in all eventualities, energy must be secure and affordable for all consumers. Technologies like hydrogen and carbon capture and storage offer new solutions for backing-up gas-fired power generators and for harder to electrify industrial sectors. Biomethane will also play a role. We expect to develop and re-purpose our infrastructure to transport these molecules to secure the country's energy supply into the future. While the precise pathways may be uncertain, the role of the NTS in underpinning a successful, secure, and affordable transition to net zero, is not.

The economic and social impact in the event of an asset failure would be very substantial.

12. We are proud of our record of delivering a service which has, in recent years, been extremely reliable, meaning our customers do not experience unplanned outages and interruptions to supply. We understand, and take very seriously, the economic and social impact of disruptions. Unlike electricity, when a disruption to the supply of gas occurs, it takes time to resolve and would typically require us to balance the gas system by interrupting supply to power stations and heavy industry.

13. Events on the Iberian Peninsula in April 2025, where a full blackout affected over 50 million people for several hours, highlight the severe impact of power loss while stressing the need for energy system resilience, particularly as more renewable capacity is added. One estimate of the economic impact of the episode put the cost at 2.25bn to 4.5bn euros.[1]

[1] Spain, Portugal switch back on, seek answers after biggest ever blackout | Reuters

14. The economic and social consequences arising from a lack of adequate funding, should that lead to an energy disruption event for both gas and electricity consumers, cannot be under-stated. With greater electrification, the impacts deepen and widen, and so the need for system resilience, including from the critical back-up role of gas, becomes ever more important. This should form part of the Ofgem's impact assessment, particularly if it continues to propose allowances which do not allow us to deliver a critical asset failure risk stabilisation goal, as set out further below.

It is critical to maintain asset health and protect the resilience of the network from outside threats.

15. Our network has an important future but was built for a different era. The way current and future customers use our network is changing and will continue to do so in the years to come. This evolution affects the assets we operate and shifts the emphasis on where we need greater resilience and reliability. For example, relying more on liquified natural gas (LNG) to offset declining domestic gas production and to diversify our energy sources, means more west to east flows, rather than the traditional north to south flows. To provide this additional flexibility, we need to invest in RIIO-GT3 to maintain secure and resilient supplies. For example, we need to increase the capability of the network in South Wales (which the DD recognises) and we need to plan (with NESO) for the physical and commercial changes that may be needed in support of Clean Power 2030.

16. Critical to the NTS's performance is ensuring asset availability and reliability, as well as our ability to deliver an effective emergency response. But our asset base is ageing. Efficient investment in our network is needed now if we are to secure a more resilient future. We know from engaging with our customers that they strongly support keeping the network well-maintained for reliable service. They also understand that a failure to invest now will cause problems in the future.

17. The resilience of the NTS was discussed with Ofgem, the then Electricity System Operator (ESO), and the Department for Energy Security and Net Zero (DESNZ) at the Resilience Summit in May 2023 to agree standards due to shared concerns about potential risks to UK energy security. Amongst other things, it was agreed to keep asset failure risk at the same level as it was at the start of RIIO-T2, and to not allow it to increase for any asset type. On 25 January 2024, DESNZ's Energy Security Committee (chaired by the Director General for Energy Markets and Supply) approved our proposals.

18. Our asset management plan – which formed the basis of the asset health investment proposals in our RIIO-GT3 Business Plan – realises the agreed risk stabilisation goal. Our plan includes targeted investments which would achieve, by 2032, the network risk levels seen at the start of RIIO-T2. This ensures that disruptions due to unplanned interruptions are minimised. Our plan was informed by both robust asset management tools and Ofgem's own risk framework to make sure we only submitted investments that we are certain are needed now – they are 'no regrets'. As explained below, by under-funding our asset management plan, the DD will not deliver a critical resiliency standard underpinning the government's own energy security objectives.

19. The government has explicitly linked energy security with national security. We have long understood this link, not least as a considerable number of our sites and pipelines are classified as Critical National Infrastructure (CNI) and so require actions to manage the risk of failure. A failure on any one of the critical pipelines could impact over 500,000 customers.

20. We are also alive to the security risks from evolving technology, the energy transition, and a volatile geopolitical and security environment. As an operator of CNI and an obvious target for cyber threats, we must keep

investing to protect our systems, people, and sites. Such investment is imperative not just to meet legal and regulatory requirements, but because these threats are constantly evolving.

21. The DD mentions the need for ongoing investment to protect energy networks and information systems from cyber-attacks. It also acknowledges that network companies must comply with the Network and Information Systems (NIS) Regulations. NIS Regulation 10 requires us to manage risks as threats evolve and to do so as fast as reasonably practicable-a requirement the DD puts in jeopardy by delaying our cyber projects, as explained below. We have been actively supporting government and Ofgem as they seek to introduce an Enhanced Profile Cyber Assessment Framework (CAF) to guide and strengthen compliance against these regulations. We are committed to work to achieving this by December 2027.

Our plan represents good value to customers considering the cost of investment against the benefits of decarbonisation and system resilience.

22. Our RIIO-GT3 Business Plan balances keeping energy bills affordable today with building a sustainable and resilient network for the future. We are focused on delivering critical national infrastructure that supports the transition to net zero, while keeping our share of the average domestic dual fuel bill as low as possible. Although the investments in our plan would increase bills by about £2 compared to the RIIO-T2 average (£8.54), this still amounts to less than 1 percent of a typical dual fuel bill—or less than 3p a day.

The challenge to our well evidenced and high-quality plan in the DD is insufficiently justified and puts at risk our ability to deliver secure and resilient services.

23. Our RIIO-GT3 Business Plan—which was shaped by stakeholders and judged to be high quality by Ofgem—reflects the vital role we currently play and will continue to play at the heart of energy security for many decades to come. We consider it is well-justified in its intent and strikes the right balance between ambition and the need for prudent, targeted and no-regrets investments which ensures that bill impacts are kept to an absolute minimum.

24. We were pleased to see recognition of the high-quality nature of the plan in the DD through the award of the second highest business plan incentive. We have struggled to reconcile this recognition with the proposed reduction of our submitted baseline total expenditure (Totex) of £3.97bn by £1.51bn (38%).

25. 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. 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.

26. 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. Reductions to our gas quality, metering and telemetry submitted costs were apparently made *before* Ofgem had undertaken a detailed technical review – i.e. before it had a sufficient evidential basis to make these reductions. We trust that our responses to supplementary questions during the consultation period to enable this review will allow Ofgem to reinstate these allowances.

Asset health is not adequately funded to stabilise asset failure risk.

27. The proposals set out in DD more than halve the asset health Totex we set out in our plan from £1.15bn to £0.55bn (through volume reductions and cost challenge). The current proposals, if unchanged, would reduce

asset health spend across RIIO-GT3 by around 44% compared to the level we are on track to invest by the end of RIIO-T2 (£0.98bn)[2].

28. Such a reduction would seriously impair our ability to meet the resilience standards which were agreed with Ofgem and Government, and which our customers expect. When viewed under Ofgem's approved Network Asset Risk Metrics (NARM) methodology, the proposed investment levels would see network risk increase in RIIO-GT3 very significantly, with no clear pathway back to RIIO-T2 risk levels in future regulatory periods. This would increase the likelihood of more frequent and longer unplanned interruptions requiring more costly interventions to resolve and is a long way off the risk stabilisation goal agreed at the May 2023 Resilience Summit.

29. Ofgem's review of our engineering justification papers (EJPs) has led to significant volume reductions, but the reasoning behind these decisions is often unclear and appears misaligned with sound asset management principles. We respectfully ask Ofgem to consider if their technical reviews are promoting good asset management practices that focus on long-term asset health and integrity, rather than just fixing problems which can be proved to exist which we see as a more reactive approach.

30. We provided significant information in our RIIO-GT3 Business Plan and in over 250 separate documents, which we believe substantially justifies our Asset Management Plan (AMP). Nevertheless, where Ofgem has invited us to do so, we have supplemented this with further evidence to address gaps perceived by Ofgem. We are confident that the further engineering detail will justify our asset health investment, reinforce our asset management approach, and will allow Ofgem to increase, substantially, the allowances in the Final Determination.

    We welcome Ofgem's willingness to move from its draft position based on new needs and scope evidence. We trust that the additional engineering evidence and our responses to supplementary questions will be properly taken into account such as to allow Ofgem to reinstate asset health allowances and related price control deliverables.

31. We are concerned about the adjustments applied by Ofgem to our unit costs. We believe these adjustments are based on erroneous calculations and assumptions and are inconsistent with established industry and Ofgem's own guidance.

32. Ofgem's use of the median (rather than mean) to assess our historical unit costs for asset health is wrong. By taking the middle value in each dataset, the median discards critical information about (a) work mix – in particular smaller volumes of high-cost work; and (b) high costs driven by extenuating circumstances which are likely to occur again. Both factors drive a positive skew in the data, which is ignored by the median, leading to erroneous underfunding of our overall portfolio of work.

33. Ofgem's own regulatory instructions and guidelines (RIGs) state that project management and company overheads should be included in capital expenditure projects. Contrary to Ofgem's assertion, these costs are demonstrably not funded through other allowances.

34. Ofgem has arbitrarily reduced our risk and contingency costs by cutting them in half, before capping them at 10%. We have asked why 10% was chosen and why the approach differs from RIIO-T2 in halving *as well as* capping our allowances but have not been given any explanation. We know of no other regulator that adopts

[2] Investment funded through original baseline Totex and revised allowances through uncertainty mechanisms.

this approach. We consider our risk approach, which follows Ofgem's own guidance and industry best practice, provides solid evidence to support funding in full.

A correction is needed to restore costs which we believe have been unreasonably disallowed by Ofgem. This – and the reinstatement of volumes - is critical so we can manage risks in line with our asset management plan and provide a system that meets current needs and remains flexible for the future, benefiting consumers.

The cyber funding proposals in the DD will impair our ability to manage emerging threats in a volatile geopolitical and security climate.

35. Ofgem is proposing a major cut to our cyber capital expenditure. This reduction is driven by a flawed assumption, that our existing 'business as usual' (BAU) teams can take on complex project delivery roles across the various IT, CNI, and Operational Technology (OT) security programmes.

36. In making their proposals, it seems that Ofgem has not considered the implications of Construction Design and Management Regulations. These Regulations legally require that competent resources be deployed in high-risk OT environments. A work-stack analysis submitted as part of this response also demonstrates that there is insufficient capacity within our BAU resources to deliver the projects at the scale and on the timeline proposed.

37. A failure to resource projects properly will result in unacceptable delays in project delivery which will undermine the timely response to emerging threats and put energy security at risk. As an Operator of Essential Services (as defined by the NIS Regulations) and Britain's primary energy system, we cannot afford to slow down the pace of achieving our cyber goals and we must be able to respond to emerging threats in a timely manner. The cuts set out in the DD prevent us from doing this, with the situation compounded by the fact that the proposed mid-term reopener is not fit for purpose to respond at the pace that is required of us.

We ask that cyber investment allowances are restored to avoid project delay which would expose us to security risk for longer and is inconsistent with NIS Regulation 10. Any re-opener mechanism must also allow networks to respond to observed threats in a timely manner and avoid funding gaps.

At the proposed level of IT&T funding we will not be able to promptly address failure and performance risk in our IT estate

38. Our Information Technology (IT) systems are integral both to the safe and secure operation of the network and to delivering our business transformation ambitions. Our RIIO-GT3 Business Plan includes essential spend, which has been robustly challenged and, where possible, benchmarked to ensure it is efficient and delivers value.

39. The DD proposes to more than halve our submitted IT&T investment costs. The assessment methodology used by Ofgem's consultants — which has not been fully explained — has been applied to only 38 of the 80 projects we submitted. Based on what we understand, the method is flawed: it uses criteria which are irrelevant to a cost efficiency assessment; the conversion of RAG rating to funding cuts is arbitrary; and overlaps in criteria (specifically 'optioneering' and 'value for money' which both involve considering alternatives) result in double-penalties for perceived evidence gaps (noting that not all the evidence was reviewed due to Ofgem's sampling approach).

40. It is simply not feasible to deliver our projects to the same scope and specification at less than 50% of the submitted spend. Our ability to maintain, update and replace our critical systems would be compromised as well as our ability to support the delivery of our AMP and Ofgem's own Data Best Practice plans. Taken together, these impacts create an unacceptable risk to our ability to deliver a secure, stable, and reliable energy supply for our customers and the country.

    Ofgem must complete its review of our IT&T projects, remedy the underpinning scorecard methodology and reinstate funding which is critical to addressing failure and performance risk in our IT estate and supporting delivery of a secure, stable, and reliable energy supply.

Reductions to our internal support and overheard costs limit our ability to build an organisation that is fit for the future.

41. We are focused not only on building a network that is fit for the future, but also an organisation that is fit for the future. We know that having the right organisational capacity and capability to deliver energy security today, whilst driving efficiency, is vital. Our RIIO-GT3 Business Plan only includes internal support and overhead costs which have been thoroughly assessed across meaningful scope, volume, and cost standards, using benchmarks wherever possible. However, given that we are a sector of one, most of our costs are bespoke, which makes comparisons difficult.

42. The DD proposes to cut £304m from our indirect opex costs, about 32% of what we proposed. In reviewing the proposals, we have identified several errors in how these costs were assessed, which we believe make the results unreliable when setting a fair efficiency target. For example, using simple cost averaging across price control periods is flawed because it overlooks the actual drivers of cost changes, which can be better reflected using other methods. Furthermore, in reviewing our business support costs, Ofgem purports to benchmark us against electricity transmission companies, but in fact has simply compared us to our own past costs. The past does not reflect current requirements as we have built capacity across many business support areas. We are also unclear why Ofgem applied an efficiency challenge for project-related IT&T capex to unrelated 'run the business' IT&T operating costs, especially when other, more internally consistent approaches are available.

43. It appears to us that Ofgem's approach significantly underfunds our current, post-separation operating model. If not corrected, there is a significant risk of undoing the progress made since separation from National Grid to create a fully standalone, right-sized organisation focused on gas transmission, to the detriment of our customers. We are also concerned that the proposed IT&T operating expenses funding is not enough to support our current contracts for important IT services and applications. Without sufficient funding, these contracts may cease, meaning going out of support in some cases.

    We ask that Ofgem addresses the errors to make the cost assessment more reliable and takes a more balanced approach to available evidence in particular the wider benchmarking evidence we submitted as part of our RIIO-GT3 Business Plan. We also request that Ofgem assess our 'run the business' cost independently of unrelated project investments and re-instate critical IT&T operating spend on support contracts.

Incentives to drive for stretch outcomes are dampened to the detriment of customers.

44. Our stakeholders support us being incentivised to go above and beyond whilst recognising the specific roles we undertake. This means rewarding us for the risk and actions which drive performance and result in positive

outcomes for consumers. Our plan sets out an ambitious package of Output Delivery Incentives (ODIs) which drive positive outcomes for customers, including the minimisation of environmental impacts, maximisation of capacity access alongside managing constraints and the effective management of shrinkage costs.

45. In attempting to make the package more stretching, Ofgem has calibrated the incentives such that the investment required to achieve good outcomes for customers does not pass a cost-benefit analysis. For example, changing the balance of risk and reward within the Capacity Constraint Management scheme may lead to a risk adverse approach to capacity release.

We encourage Ofgem to recalibrate the overall incentives package to ensure it continues to encourage investments in enhancements that drive performance rather than drive a consolidation of existing performance to minimise risk.

The proposed allowed return is inadequate to support efficient funding.

46. Ofgem's focus on investability is welcome, as is the need to strike a fair balance between attracting capital and ensuring value for money. The package does not, however, fairly reward equity investors for the risks they undertake, especially considering the imbalance of risk and reward outlined below. These risks are different from the past and not, therefore, reliably captured by the backward-looking Capital Asset Pricing Model (CAPM) on which Ofgem relies. Cross-checks are crucial in making sure that an allowed return represents the risk that investors face and will, therefore, attract efficient equity funding into the next price control period to support needed investment and the associated customer benefits. Ofgem dismisses, or inconsistently applies, these cross-checks which undermines regulatory credibility and investor confidence. A comprehensive set of cross-checks consistently point to a higher cost of equity with clear 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.

47. We appreciate that Ofgem now recognises that gas networks, because of the risks they face, experience higher borrowing costs than electricity networks. This is a step in the right direction, but it still does not fully reflect what the market data shows, so leaving the risk under-priced. This must be rectified to ensure the RIIO-GT3 financial package is calibrated, appropriately and fairly.

48. Lastly, we consider that Ofgem's DD proposals – in the round – do not offer a balance of overall risk and reward, meaning there are greater downside risks than opportunities to perform well during RIIO-GT3. This is for reasons outlined above – the Totex challenge, the mis-calibration of incentive schemes, and the shortfall in allowed returns – and other areas of concern relating to ongoing efficiency which is proposed at a level which is markedly out of line with long term economy-wide productivity trends. Not addressing this means that investors bear unrewarded risk which reduces their investment interest and ultimately harms 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.

Conclusion

49. We are committed to continuing to work constructively and openly with Ofgem to ensure our investments are properly considered, understood, and appropriately assessed and taken into account, as we progress to FD. We would welcome opportunities to engage with Ofgem particularly where further information or explanation may be required to assist Ofgem in reaching the FD.

50. We welcome that Ofgem has signalled that RIIO-GT3 must enable National Gas to operate and invest effectively to deliver energy system resilience and that additional allowances are expected to be settled in baseline funding once Ofgem is satisfied that evidential gaps have been filled. This is both positive and important because the DD, as it stands, will not allow us to deliver the energy system that our stakeholders and consumers deserve, require and demand.

51. We understand that both we and Ofgem are operating in a complex environment, and we recognise the challenge Ofgem faces in balancing the need for major investment in safe, secure, and resilient networks while minimising the impact on consumer bills. However, as we move towards FD, we encourage Ofgem to reflect carefully on the wider repercussions of a significant underinvestment in the NTS, as proposed in the DD, for our customers, consumers, and the country as a whole.

52. We are currently dealing with the impact of decades of under-investment in the NTS. This was a consequence of previous RIIO decisions providing us with less funding than we requested. Although we have invested the funding we did receive, it has been insufficient to improve the asset health of the network. It is imperative that we rectify this historic under-investment during RIIO-GT3. To put it simply, without appropriate investment, there will be a much higher risk that we will fail to keep homes warm, the lights on and industry powered during cold, dark winter days.

53. In our response, we have set out the key issues identified with Ofgem's assessment and proposals, as well as the solutions we believe are required to deliver this outcome. In summary, we therefore ask that Ofgem:

    - reinstate asset health volumes and costs allowing us to manage the risk of asset failure in line with our asset management plan.
    - allow funding for dedicated cyber project delivery resource to avoid project delay which would expose us to security risks for longer.
    - reinstate IT investment cost so we can promptly address failure and performance risk in our IT estate.
    - allow funding which supports a fully stand-alone, right-sized organisation focused on gas transmission, taking due account of our benchmarking evidence submitted alongside our Business Plan.
    - re-calibrate the incentives package to drive improvements in service.
    - adjust upwards the TMR to address a real investability risk and ensure cost of debt fully reflects market evidence on higher borrowing costs for gas networks; and
    - set ongoing efficiencies at a level appropriate for the gas sector and more in line with observable trends.

54. We want to be 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 into the future.