national gas transmission

RIIO-GT3
2026 – 2031

Draft Determination

Overview document response

Our response to Ofgem's assessment of regulated network companies' RIIO-3 (2026-2031) price control plans

August 2025 v1
Official – For public release

Contents

Introduction

At National Gas, we operate and maintain the UK's gas transmission system, ensuring energy flows safely, reliably, and efficiently to millions of homes, businesses, and industries. We play a central role in the UK's energy security and are committed to enabling the transition to a net zero future.

As part of the RIIO-GT3 price control process, which begins in April 2026, we submitted our Business Plan to our regulator, Ofgem, in December 2024. This plan sets out how we will deliver long-term value for consumers, meet our regulatory obligations, and invest in a resilient, future-ready gas network.

On 1 July 2025, Ofgem published its Draft Determination, outlining its initial assessment and view on our proposals, and those of other regulated networks. Following an eight-week consultation period, we submitted our full response on 26 August 2025. This document forms part of the suite of materials that make up our full response.

We welcome the fact that Ofgem has clearly signalled this as a consultation in which it is open to making changes based on stakeholder views and the consideration of evidence. This is both positive and important, as we believe a significant number of the current proposals are unacceptable and require numerous remedies to be addressed in the Final Determination. Our response is evidence-based, includes new data where relevant, and proposes practical remedies that better serve the interests of consumers and the country.

We will continue to engage constructively with Ofgem in the weeks and months ahead to ensure our evidence is fully understood and that the necessary changes are secured.

Read our full Executive Summary here>

Structure of our Draft Determination response

There are multiple parts to our response in which we provide the evidence to justify and support changes needed:

- Cover letter
- Executive summary
- **Overview document response**
- National Gas Transmission document response
- Finance annex response
- Impact assessment response
- Redaction log
- NetDAR Report (resubmission)
- Risk assessment (resubmission with update)
- National Gas Transmission Draft Determination response file list
- Appendices and supporting material

Please note: **Cyber files are excluded from the above**

Any tables, diagrams or images will be labelled numerically related specifically to and within the question response, rather than sequentially throughout the entire document.

Responses to questions OVQ1-OVQ38

OVQ1. We would welcome any views on the enduring role of the ISGs during RIIO-3 and for future price controls.

1. The Independent Stakeholder Group (ISG) was established to challenge and validate customer and stakeholder views of National Gas' plans and ambition. Our ISG is responsible for holding National Gas to account to put stakeholders at the heart of their decision-making processes. The main objectives of our ISG are to:

    - monitor, challenge and input into National Gas' engagement programme with stakeholders and hold them to account in incorporating stakeholders' views into their business;
    - scrutinise and provide expert input and challenge to the priorities and activities of National Gas; and
    - act as a critical friend to enable National Gas in delivering their business plan commitments by monitoring delivery and transparency over the next price control period.

2. Our members represent users of the network that are able to discuss and represent the interests of consumer's, environmental and public interest groups, as well as large-scale and small-scale customers and distribution networks.

3. During 2024, the group contributed significantly to discussions on the RIIO-GT3 Business Plan as described in the Call for Evidence Letter and Report sent to Ofgem in December 2024. This engagement with National Gas enabled a robust and challenging analysis of the level of stakeholder engagement undertaken throughout the formation of the Business Plan. To highlight one example, the ISG worked through the National Gas Commitments in separate Workgroup sessions. The feedback that was provided helped shape the Commitments that were at the forefront of the Business Plan. Since then, the group have continued to play a vital role in challenging and validating both customer and stakeholder views of our plans and ambition whilst assessing and feeding back on our performance as we near the end of RIIO-T2.

4. We firmly believe that the group should and will continue to play a pivotal role during RIIO-GT3 and in future price controls, given their wide-ranging expertise and experience and independent status which allows a fair and robust challenge of National Gas's current and future plans. In addition, the publication of the National Gas ISG Report after each meeting, and the ability for the group to engage with Ofgem directly and to produce their own material where appropriate (eg, Supplementary Questions response) in their own right as a group, demonstrates transparency and output from the group which we believe ensures an open and honest conversation that should be continued.

    Yours sincerely,

    Mike Foster

    ISG Chair

OVQ2. Do you agree with our proposed position on the Environmental Action Plan and Annual Environmental Report ODI-R for RIIO-3?

5. We agree with Ofgem's proposal to retain both the Environmental Action Plan (EAP) and the Annual Environmental Report (AER) as part of the RIIO-GT3 framework.

6. We currently monitor environmental commitments and performance through key metrics, complemented by qualitative narrative which is presented in our AER. Therefore, we agree with Ofgem's proposed approach to environmental reporting under RIIO-GT3. We welcome the opportunity to engage further with Ofgem during the consultation period on the RIIO-GT3 Environmental Reporting Guidance and will provide relevant input and commentary on environmental and sustainability matters as appropriate.

OVQ3. Do you agree with our consultation position to create a new common mechanistic PCD for ZEV and associated infrastructure costs?

7. We did not request a zero emissions vehicle (ZEV)-related PCD, which avoids binding targets but limits access to funding for vehicles and electric vehicle (EV) infrastructure. We support Ofgem's proposal to exclude us from this PCD at this stage.

8. Our fleet comprises of 70% company cars (of which 70% are Battery Electric Vehicles (BEVs)) which supports our decarbonisation efforts. Transitioning our 300 commercial vehicles, (77% of which fall into hard-to-electrify categories, like 4x4s and large vans), presents operational challenges due to limited range, payload capacity, and auxiliary equipment needs.

9. We support prioritising investment in depot-based EV charging infrastructure, to enable both commercial and company EVs to operate more efficiently and reduce unproductive charging time. However, challenges remain, including vehicle availability, suitability for specialist roles, safety restrictions on hybrid vehicles on live gas sites, and the limited financial and environmental viability of alternative fuels like biofuel/hydrotreated vegetable oil (HVO).

10. While we do not support the introduction of rigid ZEV targets currently, we remain open to transitioning where operationally viable. We realise that the ZEV mandate for vehicle manufacturers specifies the minimum proportion of sales must be zero emission vehicles, which will increase to 80% by 2030, and 100% in 2035. This means we will need to understand the operational viability and cost implications of EV alternatives to diesel light commercial vehicles (LCVs) over RIIO-GT3. Our approach will be informed by real-world performance data from new BEV assets and focused initially on enabling infrastructure.

11. However, we are concerned about the lack of clarity regarding future access to funding should circumstances change during RIIO-GT3; for example, if government policy shifts or if suitable ZEV technologies become available for currently hard-to-electrify vehicle categories. It is unclear what mechanism would be available to support such investment. While the Net Zero Re-opener may be one route, it is subject to a materiality threshold that we do not anticipate reaching, and we note that Ofgem is not currently consulting on this mechanism.

12. We would welcome further engagement with Ofgem to explore how network companies not covered by the PCD, can access funding in a timely and proportionate manner should the need arise.

OVQ4. Do you agree with our proposed approach to measuring Baseline Network Risk Outputs (BNRO) and our application of the NARM mechanism?

13. We agree with and support Ofgem's proposed approach to measuring BNRO and the overarching application of the NARM for the RIIO-GT3 period. We welcome the decision to align Gas Distribution Networks (GDNs) with other sectors, including National Gas Transmission, by using a long-term risk benefit (LTRB) measure. As noted in the determination, this will promote 'greater consistency and comparability across sectors' and ensures asset management decisions 'more accurately reflect long-term consumer value'. This is a positive step towards improving transparency.

14. We support the proposal that BNROs are associated with full project costs, including indirect costs and interventions on secondary assets. This holistic approach will enable us to make optimal long-term investment decisions that fully account for all associated costs, which is in the best interest of our customers and consumers.

15. The Draft Determination acknowledges that reaching a final view on the BNROs will require collaboration and may involve several recalculations by the network companies. We accept this position and are committed to working constructively with Ofgem to provide the necessary updates to our BNROs considering the full Draft Determination suite and subsequent Final Determinations.

16. To ensure accuracy at the start and throughout of the price control, we recommend Ofgem establish a formal window to readjust all networks' opening NARM values following Final Determinations and completion of RIIO-T2 closeout. This would ensure that final, audited RIIO-T2 closeout data and RIIO-GT3 outcomes are accurately reflected.

17. We suggest the following formal readjustment periods:

    - December 2025 – March 2026: Updated business plan data templates (BPDT) based on Final Determination
    - June 2026 – October 2026: Amended BPDT to capture deviations following RIIO-2 closeout

OVQ5. Do you think the limited life of this incentive is appropriate?

18. While agree that there needs to be a funding adjustment and penalty mechanism against delivery of asset health outputs, its application requires significant improvement to provide greater upfront certainty for RIIO-GT3.

19. We understand the need to measure overall delivery against a ±5% deadband before justification is required. However, we are concerned that the proposed ±5% threshold for the 'Clearly Identifiable' (CIO/UD) mechanism on individual projects may be too stringent. An asset health programme delivers a portfolio of condition-based interventions, and as such it is not feasible to have a 5-year workbook defined as projects at this stage. Therefore, the definition of projects needs to be agreed up front, or the parameters that can be operated within.

20. There is a risk that a ±5% threshold against projects from inception will penalise works that are subject to normal levels of cost and delivery volatility. This could trigger burdensome bespoke reviews for issues that are not material failures of delivery and portfolio management.

21. We believe more detailed and collaborative analytical work must be undertaken before the start of RIIO-GT3. This upfront analysis should be used to determine whether a fixed ±5% CIO/UD threshold is appropriate for the portfolio as a whole, for specific asset types, and for 'specific projects' or if a more flexible range and approach is needed.

22. This must be agreed ahead of RIIO-GT3 so we can manage our portfolio from the first day of the price control, with clear associated financial performance guiderails. Upfront clarity will allow us to plan effectively and commit to a portfolio of works that deliver the best value for consumers, without the risk of falling foul of a mechanism that is overly sensitive or lacks understanding. This proactive work is essential to remove the ambiguity experienced in RIIO-T2 and streamline the process for RIIO-GT3.

OVQ6. Do you agree with our proposed approaches to improving the NARM framework?

23. We support the strategic objective to improve the NARM framework through standardisation and transparency, and agree that introducing new licence conditions is an appropriate mechanism to formalise this initiative.

24. We welcome the development of a common methodology. While our methodology is unique, it shares common principles with Gas Distribution, and these elements should be aligned. Likewise, where appropriate, principles should be aligned with Electricity Transmission to maximise consistency across the sectors.

25. It's important that the implementation is beneficial and does not become a burdensome compliance exercise. The new Engineering Guidance Document and Information Gathering Plans must be succinct and principles-based, recognising that network companies have different operating practices.

26. The proposed timelines appear sensible, provided the scope of the required documents is concise. We strongly recommend that Ofgem works with all network companies at the outset to establish clear, agreed-upon goals and a statement of purpose for each document.

OVQ7. Do you agree with our proposal for the physical security PCD?

27. We support the price control deliverables (PCD) for physical security but do not agree with the proposed implementation. While the capex PCDs have been accepted, the mechanism lacks the flexibility required for a long-term, risk-based programme. Specifically, the current proposal mandates the return of funding if a site is no longer classified as critical, without allowing for re-prioritisation or substitution of sites.

28. We believe the PCD should allow for the substitution of Critical National Infrastructure (CNI 3+) sites within the same funding envelope. This would enable dynamic reallocation of resources in response to evolving threat landscapes and operational priorities, ensuring that investment is always targeted where it is most needed. Re-openers would be used to true-up any changes, providing appropriate governance while maintaining delivery flexibility. Such an approach would also support the efficient delivery of RIIO-GT3 and enable acceleration of RIIO-GT4 scope where appropriate.

29. Further explanation and rationale can be found in 'NGT_EJP33 &34_Physical Security COMBINED Asset & non-Asset EJP_RIIO-GT3 - DD Response.docx'

OVQ8. Do you agree with our approach taken to review of the Climate Resilience strategies?

30. We support the use of independent expert review in assessing climate resilience strategies, as it will help ensure consistency and technical robustness in evaluations. Furthermore, we recommend that:

    - the review process is co-designed with stakeholders to ensure relevance, transparency, and fairness;
    - the panel of experts includes a balanced mix of climate scientists, engineers, and adaptation specialists; and
    - feedback from the review is made publicly available to support sector-wide learning and the sharing of best practice.

31. We welcome Ofgem's recognition of the alignment between our business plan and our climate resilience strategy. We consider climate resilience to be a critical component of the long-term sustainability and reliability of our network. We support the aspiration to develop guidance and provide updates by the second annual reporting submission in 2028. We agree that it is essential that stakeholders, including ourselves, are actively engaged in the design and implementation of this process, given the intrinsic link between the resilience of energy and gas systems.

OVQ9. Do you agree with our views on the Workforce Resilience Strategies?

32. We agree with Ofgem's views on the Workforce Resilience Strategies and are pleased to see that the progress made by network companies has been recognised. We support the emphasis on strategic workforce planning, diversity, and retention.

33. Our strategy reflects a robust and data-driven approach to workforce planning, underpinned by the following:

    - **Forecasted organisational growth** from ~2,000 at the end of the financial year 2024 to over 3,000 employees by the end of RIIO-GT3, supported by granular workforce planning across all business areas.
    - **A clear focus on attracting and retaining STEM talent**, with expanded early careers programmes and outreach into the education system to build the future skills pipeline.
    - **A strong commitment to diversity, equity and inclusion**, with measurable progress in gender and ethnic diversity, and targeted leadership development programmes to address representation gaps.
    - **A refreshed Employee Value Proposition (EVP)** and culture focus to position National Gas Transmission as an employer of choice in a competitive labour market.
    - **Continued collaboration with Energy & Utility Skills** to improve workforce resilience metrics and benchmark performance across the sector.

34. We also welcome Ofgem's encouragement to continue collaborating with industry and government. We are actively engaged in sector-wide initiatives and have built strong relationships with trade unions, educational institutions, and industry bodies to support skills development and workforce wellbeing.

35. Looking ahead, we believe that further progress can be made in the following ways:

- Enhancing transparency and consistency in workforce resilience metrics across the sector.
- Strengthening links between workforce planning and net zero delivery, particularly in emerging areas such as hydrogen and carbon capture, usage and storage (CCUS).
- Continuing to evolve our people systems and digital learning platforms to support agile, inclusive, and future-ready workforce development.

36. We appreciate Ofgem's constructive approach and look forward to continuing to work collaboratively to ensure the sector remains resilient, inclusive, and capable of delivering the energy transition.

OVQ10. Do you agree with our views on the Supply Chain Resilience Strategies?

37. We acknowledge Ofgem's position that the requirements for Supply Chain Resilience Strategies were met. We note that the Draft Determinations provides limited feedback or response to the specific Supply Chain Resilience Strategy we submitted.

38. Additionally, we disagree with Ofgem's comment: 'We note that none of the network companies proposed specific measures in relation to supply chain resilience'. Our Supply Chain Resilience Strategy demonstrated a focus and commitment to several approaches, including;

- long-lead procurement strategies to mitigate supply chain risks;
- increased focus on early contractor involvement to lock in capacity earlier;
- supplier relationship management as a tool to create a more resilient supply chain;
- diversification strategies in key areas to attract new suppliers;
- the development of our 'client of choice' mentality to drive performance and attract contractors.

39. We would appreciate further guidance on Ofgem's request: 'We urge all network companies to do more and, where appropriate, collaboratively in this space'.

40. We already have engagement with other cross-utility operators to discuss supply chain strategies, bottlenecks and mitigations and will continue to develop these relationships throughout the next regulatory period. We would welcome the opportunity to work with Ofgem to explore this statement further and understand what further actions could be undertaken to meet their requirements.

OVQ11. Do you agree with the equal weightings applied per criteria/rating for the 'Clarity scorecard' and the 'Business Plan Commitments scorecard' for the Stage C assessment?

41. We agree with Ofgem's approach to applying equal weightings across the criteria and ratings within both the Clarity Scorecard and the Business Plan Commitments Scorecard for the Stage C assessment. This method provides a transparent and objective framework for evaluating the quality of business plans, and we consider it a fair way to ensure consistency across submissions.

42. More widely, we welcome Ofgem's decision to treat this as a consultation, with the opportunity to adjust business plan incentive (BPI) rewards and penalties based on stakeholder feedback and updated cost information.

43. We also support the use of basis points of Return on Regulated Equity (RoRE) as the mechanism for applying BPI incentives and penalties. This approach is consistent with the wider RIIO framework and provides a clear and scalable way to reflect performance across different stages of the assessment.

OVQ12. Do you agree with the weightings applied per outcome for each sector for use in the Stage C - Business Plan commitments assessment?

44. We support the principle of assessing business plan commitments against clearly defined outcomes. However, we have concerns regarding the timing of Ofgem's decision to apply sector-specific outcome weightings after companies had submitted their business plans. Had this information been available earlier, companies could have tailored their commitments to better reflect the areas Ofgem consider most beneficial to consumers. This would have supported a more targeted and strategic alignment between company proposals and regulatory expectations.

45. In light of this, we would support an approach that applies equal weighting across Ofgem's regulatory outcomes; infrastructure fit for a low-cost transition to net zero, secure and resilient supplies, and high-quality service from regulated firms. This would ensure a level playing field and reflect the broad importance of each outcome across all sectors.

46. We do, however, agree with the use of equal rating weightings across the assessment areas within the Business Plan Commitments Scorecard, namely deliverability, consumer value and additionality, stretching performance, and new company proposals. This approach supports consistency and fairness in how commitments are evaluated and aligns with the balanced scorecard methodology.

47. We welcome further engagement on how outcome weightings might be communicated and applied in future price control periods to ensure transparency and enable companies to respond effectively.

OVQ13. Do you agree with the use of a default materiality threshold and its level?

48. Ofgem has proposed setting a default materiality threshold for re-opener submissions of 0.5% of average annual based revenue. Whilst we support the introduction of a materiality threshold, there are areas of Ofgem's proposal with which we disagree or need more clarity.

49. The application of a materiality threshold follows in the RIIO-T1 and RIIO-T2 frameworks. We agree that the objective of the threshold to reduce the burden on the regulator and network companies, which numerous small re-opener applications would cause, continues to apply in RIIO-GT3.

50. We agree with Ofgem's view that the materiality threshold is the proposed adjustment to allowed revenue exceeds materiality threshold multiplied by the totex incentive mechanism (TIM) rate.

51. We support the approach to use of an average base revenue in the calculation of the threshold, excluding the impact of uncertainty mechanisms (UMs). The materiality threshold should be considered against the ex-ante base revenue fixed at Final Determination so that all re-opener applications are measured against a consistent benchmark. In this case, an annual average base revenue over RIIO-GT3 is appropriate to ensure that the threshold is not dependent on the year in which either investment or the re-opener submission is made. It's appropriate to use a 2023/24 price base for base revenue to set the materiality threshold for re-openers, if the assessment of the re-opener value is also in 2023/24 prices.

52. Table 33 of the RIIO-3 Draft Determinations - Finance Annex sets out the base revenue we used to set the 0.5% default materiality threshold as £1,034.5m.

53. Ofgem has subsequently provided clarity via the Draft Determination question (DDQ) process that 'the materiality threshold for reopeners is calculated using a specific subset of totex, similar to that applied for the calculation of the Business Plan Incentive. This excludes real price effects ((RPEs), output efficiency (OE), re-openers, price control deliverables (PCDs) and 'use it or lose it' (UIOLI) allowances from the overall totex.' This response quoted our annual average ex-ante base revenue (23/24 prices) as £1,163m.

54. We consider that there is an opportunity to simplify the materiality threshold by utilising a 'flat-rate' value, based on Final Determination revenue , as per the current Gas Transmission licence approach.

55. Paragraph 6.31 of the RIIO-3 Draft Determinations Overview Document provides additional detail regarding the Resilience re-opener process. It states that 'where costs fall below the materiality threshold, we consider these can be addressed at RIIO-3 closeout of in the next price control'. We believe this process should be extended to apply across UMs in aggregate. That is, the aggregate value of the RIIO-GT3 UMs which fell below the materiality threshold and so were not submitted, should be considered. Where the total value falls above the materiality threshold, the costs should be addressed through the RIIO-GT3 closeout process.

56. We have set out our view on whether the default materiality threshold should apply to a specific re-opener within our individual re-opener responses.

OVQ14. Do you agree with our proposed amendments to the CAM for RIIO-3?

57. We support Ofgem's continued inclusion of the whole systems Co-ordinated Adjustment Mechanism (CAM) within the RIIO-3 framework. We recognise its potential to deliver wider consumer value by enabling the potential reallocation of responsibilities and associated revenues to the network best placed to deliver a given output.

58. We welcome Ofgem's proposal to remove the specific re-opener windows, which we believe will enhance the potential flexibility and responsiveness of the mechanism. This change could lead to network companies bringing forward proposals that may be covered by the mechanism.

59. We support Ofgem's decision not to apply the default materiality threshold (set as the proposed adjustment to allowed revenue, when multiplied by the totex incentive mechanism TIM rate, exceeding 0.5% of annual average ex ante base revenue) to this re-opener.

60. We also support Ofgem's decision not to pursue the option of allowing unilateral applications under the CAM. We agree with the rationale that this could introduce unnecessary friction between network companies and may not lead to the best outcomes for consumers. Maintaining a collaborative approach, supported by the NESO and endorsed by all affected parties, is more likely to result in well-considered, effective and deliverable proposals.

61. However, the use of CAM to date has been limited, and we believe this may be partly due to a lack of direct incentive for networks to initiate the process. Ofgem could consider introducing a form of positive incentive for network companies that proactively identify and pursue CAM opportunities where there may be a demonstrable consumer benefit.

62. As a whole system approach becomes more prevalent in industry thinking, it is possible that the CAM mechanism could attract more engagement from the network companies.

OVQ15. Do you agree with our proposed design of the NZARD UIOLI?

63. We agree with Ofgem's proposed allowance of £10.3m for Net Zero and Re-opener Development 'use it or lose it' (NZARD UIOLI), which aligns with our proposed approach.

64. The fund to enable small net zero facilitation capital projects is required for us to develop our network in line with government direction. These projects include Regional Energy Strategic Plans (RESP)-related projects in gas distribution, shrinkage-related activities, and early development work on projects that network companies intend to bring forward under specific re-openers.

65. We encourage Ofgem to consider the maximum project spend of £2m against inflation and increase this to £2.5m.

OVQ16. Do you agree with our proposed design of the NZASP re-opener?

66. We agree with Ofgem's proposed allowance for the Net Zero Pre-construction and Small Projects Re-opener (NZASP), which aligns with our proposed approach. We agree with the need to fund net zero-related pre-construction work and small net zero facilitation projects that are too material for the Net Zero and Re-opener Development 'use it or lose it' (NZARD UIOLI). This includes shrinkage activities, Digital Platform for Leakage Analytics (DPLA) for gas distribution networks (GDNs) and RESP coordination costs for GDNs.

67. We welcome the broadening of the scope of the re-opener. We find it acceptable that the trigger is authority only, as per the RIIO-T2 period.

68. We support Ofgem's decision not to apply the default materiality threshold (set as the proposed adjustment to allowed revenue, when multiplied by the totex incentive mechanism (TIM) rate, exceeding 0.5% of annual average ex ante base revenue) to this re-opener.

69. Given the objective of this re-opener is to encourage small net zero facilitation projects, the default materiality threshold is too high, and we support the £1m materiality threshold.

OVQ17. Do you agree with our design proposal for the resilience re-opener?

70. We agree with the inclusion of a resilience re-opener within the RIIO-GT3 framework. As set out in Ofgem's initial licence consultation published on 30 July 2025, we recognise that this mechanism effectively comprises two distinct elements: the Physical Security (PSUP) re-opener and the broader Resilience re-opener.

PSUP re-opener

71. We support the continuation of the PSUP re-opener with the same scope as RIIO-T2

72. We supportive the proposed re-opener windows in April 2028 and April 2030, and agree with the Authority's ability to trigger this mechanism. We anticipate that this may be required following NESO's review of Critical National Infrastructure (CNI), though we note NESO have not yet advised on timelines for their review.

73. We support the decision not to apply a materiality threshold to physical security-related costs. These activities are driven by legislative requirements, and as such, should not be subject to the default threshold applied elsewhere in the framework.

Resilience re-opener

74. We support the breadth of scope of the resilience reopener. This wide range of potential triggers is beneficial to consumers, as it allows us and other network companies to react swiftly to address resilience concerns.

75. We accept the Authority-only trigger for the resilience element of the re-opener, and expect Ofgem will collaborate with NESO, where appropriate, on use of this trigger. However, we anticipate that network companies may be able to identify and understand potential uses of the mechanism ahead of formal triggering and would welcome ongoing engagement to support this.

76. We accept the proposed materiality threshold, subject to the presence of a true-up mechanism. We recognise and support Ofgem's statement that costs falling below the threshold may be addressed at RIIO-GT3 closeout or in the next price control review.

77. We welcome the continued development of this mechanism and look forward to working collaboratively to ensure it remains responsive to evolving resilience needs throughout the price control period.

OVQ18. Do you agree with our proposed approach to RPEs?

78. We broadly support Ofgem's proposed approached to real price effects (RPEs) but have concerns that the result leaves us more exposed to inflationary risk than other networks.

79. Differences in cost classification may be understating our coverage and maintaining the existing materiality thresholds may not be the best way to manage risk.

80. Table 12 of the RIIO-3 Draft Determinations Overview Document shows that we have less than 50% coverage of totex linked to RPEs (replicated below). We note from Ofgem's response to DDQNGT49, this has been calculated only based on our transmission operator (TO). We have assumed this is an oversight and that RPEs will continue to be applied to both the TO and system operator (SO), with separate calculations for each entity.

Cost category	GDNs	NGT	NGET	SHET	SPT
Labour	60.1%	29.7%	35.5%	59.8%	71.0%
Material	12.4%	19.9%	32.2%	20.2%	16.0%
Plant & equipment	9.6%	5.0%	14.9%	13.6%	6.0%
Other (not covered by RPEs)	18.0%	45.4%	17.4%	6.5%	7.0%

Chart 1 – Share of submitted costs by category (% of submitted costs)

81. This diverges significantly from our RIIO-T2 coverage (78.5% TO and 73.4% SO) and is also significantly different from other TOs, with whom we would expect to be broadly comparable due to our similar business models. This implies that there is likely to be a difference in cost classification between networks or in the allocation/weighting of RPE allowances, given the limited change in respect of selected inflation indices and materiality levels Ofgem proposes.

82. The most likely cause of differences is the categorisation of sub-contract labour. This was included in the 'Other' category as stipulated in the BPDT guidance for BPDT 10.10, which states contractor labour should be excluded from general and specialist labour categories.

83. Another possible cause is inconsistent allocation of labour indices to other costs between the TOs. As summarised in Chapter 15 of our Cost and Benchmarking Annex, sub-contractor labour forms a significant part of our cost base and is subject to the same market conditions and pressures. We propose this should be covered by labour RPEs, consistent with the approach taken in RIIO-T2. Not doing so appears to leave us with a significantly higher exposure to inflationary pressures than other TOs.

84. The table below splits out the 'Other' category into contractor labour and non-contractor labour elements. the 'Other – contractor labour category' represents 19% of our total baseline totex submission.

Category	Load related capex	Non-load related capex	Non-operational capex	Other capex	Direct opex	Indirect opex
General labour	0%	2%	0%	0%	12%	20%
Specialist labour	0%	15%	21%	15%	37%	34%
Materials	0%	40%	19%	7%	7%	8%
Plant and equipment	0%	9%	9%	0%	0%	0%
Transport	0%	0%	0%	0%	0%	2%
Other – contractor Labour	0%	34%	37%	29%	0%	0%
Other – excluding Contractor Labour	0%	0%	13%	49%	44%	37%
Total	100%	100%	100%	100%	100%	100%

Chart 2

85. Materiality thresholds can also understate exposure to indices, particularly where these indices become more volatile after RPEs have been set for the price control. Therefore, we support removing materiality thresholds and including any input category with an identified price index, as there is precedent for in other regulated sectors. Whilst we recognise this introduces some additional complexity, it could be managed within the current framework of setting exposures on allowed totex; once included in the mechanism and appropriately weighted, the calculation of allowances can be performed in the same manner as in RIIO-T2.

OVQ19. Do you agree with our proposed approach to ongoing efficiency?

86. We disagree with Ofgem's assessment of the level of ongoing efficiency (OE), its justification for that level and the proposed starting date for its application. Correcting for the errors in Ofgem's assessment demonstrates that 0.5% remains an appropriate, evidence-based threshold. Given the timing of business plan submissions and the information considered at that point, this threshold should be applied from 1 January 2025.

87. OE is the adjustment Ofgem make to totex allowances to reflect that even the most efficient company in a sector can achieve productivity improvements over time. Such improvements arise from general developments in technology and business practices in the wider economy.

88. As such, productivity indices are considered the most appropriate benchmarks to set this allowance and standard practice is to rely on EU KLEMS data set. (EU KLEMS stands for EU level analysis of capital (K), labour (L), energy (E), materials (M) and service (S) inputs). EU KLEMS is not just a 'useful source of information' as Ofgem claims; it is the best source of hard evidence about productivity that has been achieved across many sectors of the economy and is therefore commonly relied on substantially by regulators when setting an OE allowance. The EU KLEMS benchmark can sit alongside an assessment of the factors that make it more or less likely a sector can underperform or outperform those indices.

89. National Gas Transmission, along with the other members of Future Energy Networks (FEN), submitted benchmarking evidence and an assessment of sectoral factors performed by Economic Insight with our business plans. This recommended a range for the threshold of 0.2% to 0.8% per year, the midpoint being 0.5%. Economic Insight (EI) also demonstrated there was little evidence that regulated entities, particularly gas networks, can outperform the general productivity benchmarks. This is primarily the case due to the nature of the industry, (evidence shows that only high tech businesses have outperformed the index), and the limited evidence that regulation can materially mitigate the drivers of low productivity in the UK.

90. Networks have been consistent in demonstrating evidence that since the financial crisis of 2008, productivity levels have struggled to meet historical trends and there is limited evidence to suggest a reversal of this trend in the near future, nor that regulated businesses can be completely immune from this trend.

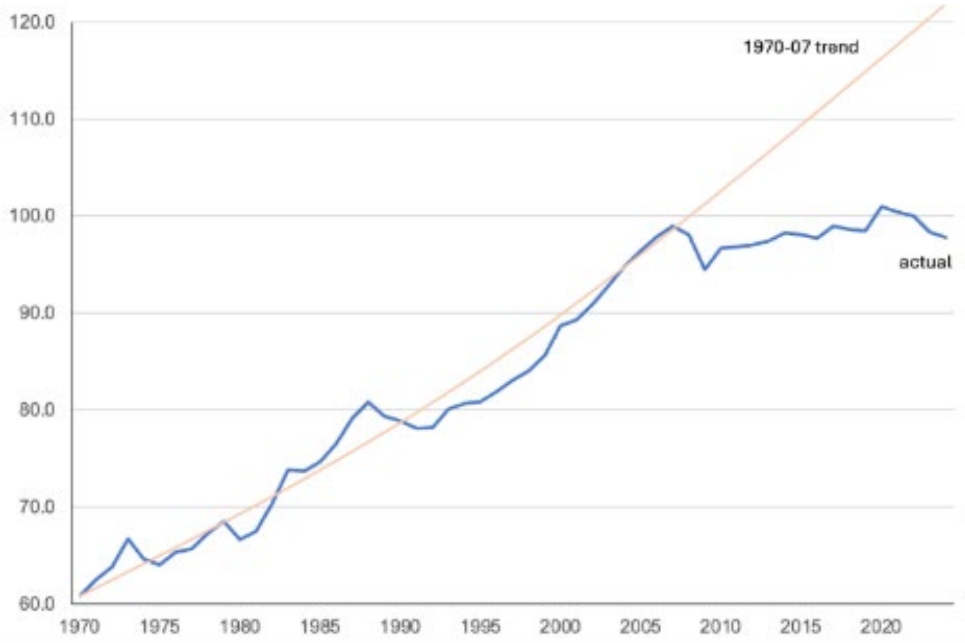


Chart 1 – UK market sector multi-factor productivity (2022=100)

Source: First Economics 'Economic Regulation Summer Series, Productivity Growth' 17 July 2025

91. Despite this evidence, regulators have consistently selected 1% as the allowance, a level that as time progresses productivity trends stubbornly remain below historical trends (1% being more aligned to the 1970-2007 trend line). At Draft Determination, Ofgem has set the same allowance of 1% per year. To justify this, it cites:

- Productivity indices are reliant on historical data and therefore future gains need to be taken into account. Specifically, Ofgem cites technological change as being a key driver of improved productivity (this is despite significant reductions in totex allowances for IT at Draft Determination)
- The impact of innovation funding in prior price control periods
- Utilisation of a data set going back to 1970 with equal weighting applied to the post-financial crisis period (post 2009) despite evidence presented that productivity has been significant weaker since 2009 with limited indications that it will improve
- Recent precedent, including Ofwat's decision at PR24 (currently being challenged at the CMA by six networks)
- Networks' assessments, which had a top end of the range of 0.7% - Ofgem used this to define the lower end of its range
- Independent forecasts of economy-wide productivity trends over RIIO-3
- A judgement that the lower half of its independent expert's (Grant Thornton) range was 'not sufficiently challenging' (we note that the broad range generated by Grant Thornton was 0.1%-1.3%)

92. At Draft Determination, FEN appointed Economic Insight to assess Ofgem's justification for a 1% per year allowance (see attaached file), focusing on three errors:

- **Error 1:** The reliance on the outcome of a regulatory precedent rather than the precedent of the consistent application of a robust method. This is an error as it assumes all inputs to the previous price control or to

another regulatory price control are identical and implies the threshold will continue to be 1% regardless of evidence, which is inconsistent with the approach Ofgem adopts for other inputs. We also note the CMA's remarks in its response to SGN's RIIO-2 appeal on the use of the 85th percentile that 'Regulators must always consider the case-specific circumstances and set the benchmark at a level appropriate for the case'[4]. **Economic Insight find that re-applying the methodology applied in RIIO-2 but using the latest data would result in a range of -0.5% to 0.5%. Ofgem's proposed allowance does not overlap with this range**

- **Error 2:** The removal of three outlier observations in productivity data (2008, 2009 and 2020) in periods of 'low productivity' rather than including complete business cycles and treating 'high productivity' outliers in the same way. These years were not removed from the RIIO-2 assessment. Two statistical methods applied by Economic Insight to assess outliers show contradictory evidence as to whether they are somehow 'unprecedented'. Furthermore, the periods from which Ofgem draws its 0.1%-1.3% range is based on four periods of entirely positive GDP growth and hence is upwardly biased. This approach appears contrary to Ofgem's justification for utilising a full data set back to 1970 cited in para 8.28 of the DD Overview Document, is asymmetrical, inconsistent and could be interpreted as arbitrary. **Correcting for this error restricts the upper bound of the range Ofgem proposed to 0.9%**

- **Error 3:** Ofgem has placed disproportionate weight on unsubstantiated arguments to select a target from the upper end of its range, including Ofgem's view that networks will benefit from above average technological change, rather than applying a consistent weighting to all factors. This infers that Ofgem considers the gas sector will benefit than technological change more than the UK average and must, to meet Ofgem's target, be considered one of the most innovation sectors of the economy. Economic Insight has provided survey evidence that demonstrates if anything, gas networks should see lower net productivity improvements from new technologies than nearly every other industry. Furthermore, only matters that relate to the upper bound of Ofgem's range are considered, when there are several reasons to consider a more conservative target for RIIO3. For example, there have been several technological developments since the financial crisis that have not resulted in higher productivity. Furthermore, UK productivity growth has been low and stagnant since 2008 and are unlikely to unwind over RIIO-3 and as previously referenced, regulation is unlikely to mitigate the impact on gas networks of the factors causing this slowdown. **This is an asymmetric assessment that risks underfunding networks in RIIO-3. Correcting for this error requires the adoption of a mid-point from the final range. The midpoint of Ofgem's 'narrow' range is 0.7%**

93. **Correcting for these three errors means that Ofgem's chosen allowance does not lie within any of these ranges. Based on the methodology Economic Insight has previously demonstrated, that is based on clear principles, a plausible range of 0.2% to 0.8% (midpoint 0.5%) is more appropriate for the RIIO-GT3 period.**

94. Finally, Ofgem assumes that the allowance is applicable from two years before the end of the current price control (2023/24). Ofgem says this is based on the timing of when networks submit business plans; networks are expected to base submissions on the best available information at the time. Therefore, Ofgem has an expectation that there are still two years of improvement under the RIIO-T2 period to go. For RIIO-3, business plans were in fact submitted in December 2024, nine months into year four of the RIIO-2 price control. Ofgem has therefore erred by failing to apply its own logic, which would imply that networks took into account more recent data in their submissions and that **a starting point of 1 January 2025 (or the nearest year end, being 31 March 2025) should be applied instead.**

OVQ20. Do you agree with our proposed NIA funding levels?

95. We do not support Ofgem's proposed network innovation allowance (NIA) funding levels as set out in Draft Determinations. The reduction in innovation funding across the board in RIIO-ED2 and RIIO-GT3 is counter to the development of efficient, cost-effective networks.

96. The key remedies are summarised as follows and provided in more detail below:

- We do not agree with the proposed level of £11.2m of funding for the NIA in RIIO-GT3 for National Gas and we believe a revised allowance should be £26.5m (excluding future of gas) and £32.5m (including FOG projects associated to Power and Industry). Please see answer to GTQ57.
- The removal of future of gas innovation projects based on decisions for home heating and blending is not applicable to National Gas. Funding to support power, industry and CCUS activities is required and not covered by other funds such as HTBM. Please see answer to GTQ57 and OVQ1. In consideration of the National Transmission System (NTS)'s role in power, industry and blending all future of gas work should be enabled at £13.5m.
- This returns National Gas's proposed funding to £40m as originally requested.

97. Businesses typically invest between 5% and 20% of their annual revenue in innovation, often resulting in increased profitability in subsequent years. For example, at £1,180m RIIO-GT3 Transmission Operator (TO) revenue forecast excluding recovery of passthrough costs, we would typically expect to have a minimum innovation spend of circa £59m per annum (£295m over RIIO-GT3). Those achieving the greatest returns tend to allocate a larger proportion of their budgets to transformative innovation. However, regulated entities do not have the same commercial incentives or profit mechanisms as unregulated businesses. Therefore, it is essential to support innovation within regulated sectors to ensure they can contribute effectively to long-term progress and sustainability. The reduction in innovation funding across the board in RIIO-ED2 and RIIO-GT3 is counter to the development of efficient, cost-effective networks.

98. As detailed in our response to GTQ57, we do not agree that the proposed NIA funding for National Gas is in line with the criteria set and further consideration is required regarding future of gas activities. The current spread of NIA funding penalises the gas networks and will drive them to be less innovative through the RIIO-GT3 period. A more distributed approach should be implemented considering also that the RIIO-ED2 NIA funding is in review in 2025. As above, typically we should spend £295m on research and development. In our RIIO-GT3 business plan we have requested £40m (<20%) of NIA funding for high-risk innovation. We have demonstrated a plan to continue to build on business-as-usual innovation and continuous improvement, alongside the use of SIF and re-openers for development work.

99. We do not agree with the definitions of NIA and SIF funding shared in the webinar on 11/08/2025. We have understood incremental innovation to need to be funded as BAU not through NIA. NIA should be for work that is consumer focussed, higher risk and harder to progress through business funding. In terms of horizons we believe:

- Horizon 1 should be BAU
- Horizon 2 should be NIA
- Horizon 3 or large-scale demonstration should be SIF

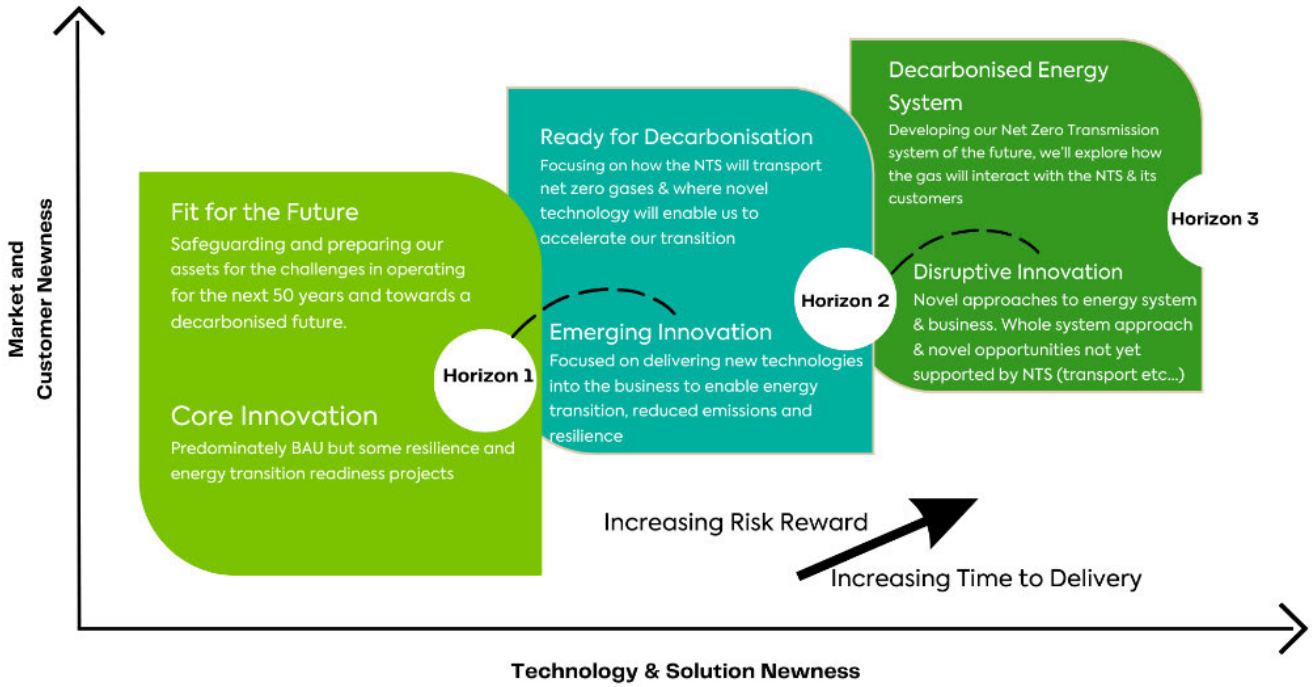


Figure 1

100. The NIA funding for gas networks is currently limited by decisions on hydrogen blending and hydrogen for heat that will need a mechanism for review in the RIIO-GT3 period. Whilst these have a large impact on the gas distribution network, our network is aligned to programmes for decarbonisation of power and industry. The HyINT RIIO-2 NIA mechanism should be enabled to allow required innovation spend for hydrogen development or a review at a set point post government decision, as per the RIIO-ED2 NIA approach. However, it remains unclear why funding for hydrogen for industry and power and carbon capture, usage and storage (CCUS) has been excluded from the NIA fund, as these are already progressing. The statement that Hydrogen Transport Business Model (HTBM) and other funding will be appropriate for future of gas innovation is misaligned with the funding guidance for the HTBM provided to date, which requires the following eligibility criteria; Onshore pipeline transporting H2 as a gas, project maturity operational by Dec 2032, be 'large' and have at least one storage partner and be GB based. Incorporating innovation, research and development activities in HTBM bids is likely to result in the project being unfunded.

101. Proportionally, National Grid Electricity Transmission (NGET) achieving six times the NIA funding of any other network and 55% of the proposed NIA funding budget does not align with enabling innovation across the energy system and networks. NGET's innovation annex outlines a refreshed approach to innovation in response to the UK's accelerating decarbonisation goals, particularly the Clean Power 2030 agenda. It emphasises the need for agile, collaborative, and whole-system innovation to support the transition to a low-carbon economy. In order to collaborate with NGET and other electricity networks on clean power and decarbonisation goals, we will require funding to be equal partners in projects. Where we do not supply funding into projects, we find it difficult to fully engage and direct the activities in the projects and need a more levelised approach to ensure collaboration.

102. We have proven delivery of benefits from innovation projects and believe that this should be considered in the awards provided across the networks. We publish our case studies and the value we deliver on our website and through annual summaries, ensuring dissemination of learning and the outcome of innovation. Some networks are transparent on this, whist others are not and yet receive large amounts of funding. Whilst not all benefits are financial, it is an indicator of value delivered from innovation as a whole. The Annual Innovation Report has been focussed solely on RIIO-T2 and does not yet show benefits from across innovation.

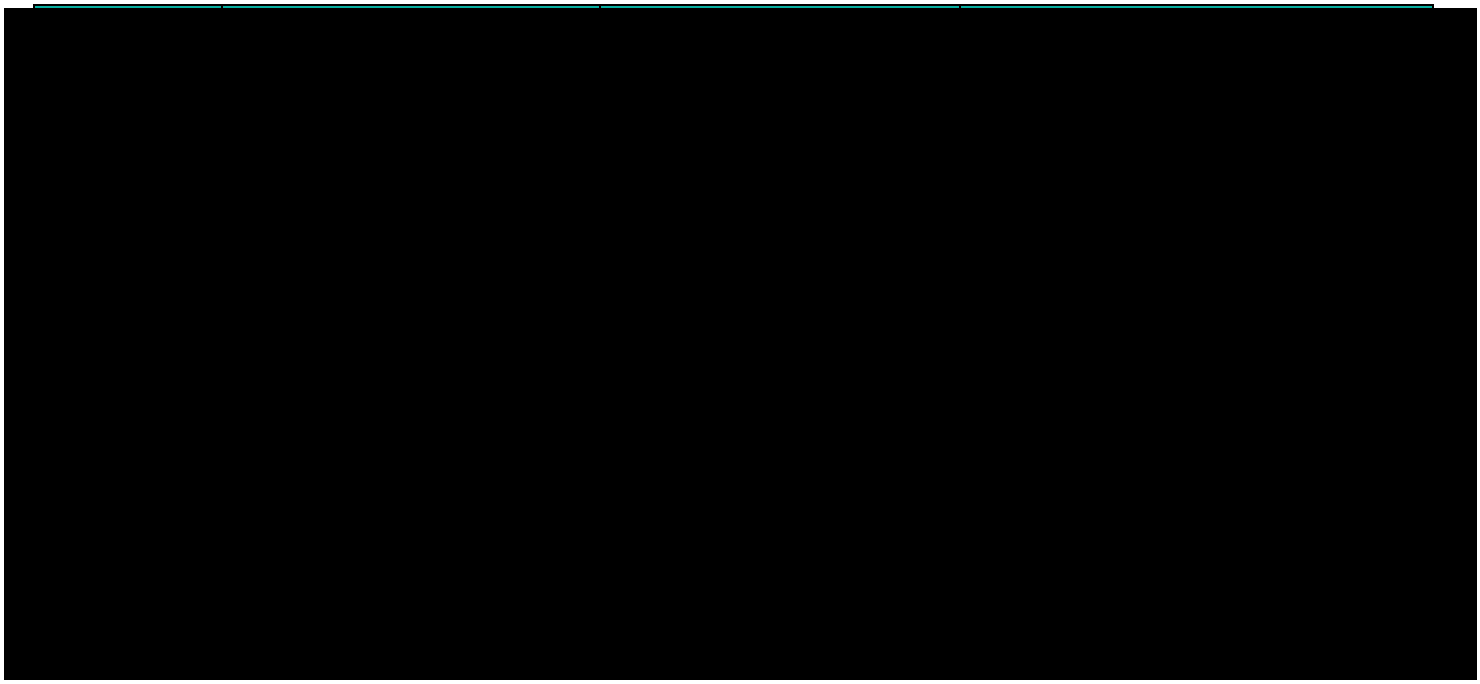


Table 1

103. To conclude, we do not agree with the proposed level of NIA funding for the following reasons:

- We believe a revised allowance should be £26.5m (excluding future of gas) and £32.5m (including FOG projects associated to Power and Industry). Please see answer to GTQ57. In consideration of the NTS's role in power, industry and blending all future of gas work should be enabled at £13.5m.
- The removal of future of gas innovation projects based on decisions for home heating and blending is not applicable to National Gas. Funding to support power, industry and CCUS activities is required and not covered by other funds such as HTBM. Please see answer to GTQ57 and OVQ21.
- The role of the NTS in the future of gas has been widely documented including the most recent version of the future energy scenarios (FES), to stop innovation in this area would be seen as a backwards step towards Clean Power.
- The blending consultation released by DESNZ in July 2025 and the governmental directions on CCUS and Hydrogen contradict the message of removing innovation spend on the future of gas.
- The HTBM is a fund set up for large capital infrastructure of TRL7 and above and is not suitable to fund innovation.
- We will be unable to fund whole system energy projects with the electricity networks and NESO.
- The proposed level of NIA allowance will affect our ability to deliver and disseminate innovation projects in RIIO-GT3 and there will be an additional knock-on impact to the supply community.
- We also do not agree with the business plan assessment reduction of 22% and have detailed why in our response. Please see answer to GTQ57.

OVQ21. Do you agree with our approach to the future of gas-related workstreams?

104. We do not support Ofgem's proposed approach to the future of gas-related workstreams. Whilst we appreciate the uncertainty around the energy transition and policy decisions on blending and heat, the National Transmission System (NTS) has been identified as a facilitator for Carbon Capture Usage and Storage (CCUS) and hydrogen core networks through repurposing. Please see our response to GTQ57 section 2.1.

105. To halt all activity in this space, while awaiting decisions aligned to the distribution network assets, seems counter to decisions being made by government. Repurposing the network is of consumer value and enabling future solutions through innovation projects is vital to ensuring this can occur.

106. **Risk of increased tariffs** - As the user base contracts, the remaining users could see an increase in tariffs to cover network costs. Repurposing pipelines offers a cost-effective way to reduce the carbon emissions of large methane users. An example is SCO2T supporting the Scottish belt where the users currently make up approximately 2.5% of the total natural gas demand in the UK. If they can continue to operate supported by CCUS it will reduce the contraction of the natural gas user base and diversify the spread of costs. Repurposing for hydrogen can remove assets from the natural gas system cost base, thus reducing the tariffs for current users and providing a return to the natural gas consumer through the asset transfer/sale.

107. **Risk of decommission costs** - If pipeline sections become severely under-utilised and net liabilities to the network, decommissioning costs could be incurred. Repurposing pipelines enables their continued use and transfers future decommissioning costs to hydrogen and CO_2 users. [redacted] This reduces the burden on methane consumers to establish a decommissioning fund.

108. **Risk of stranded assets** - Changes in forecasted usage of pipelines can lead to write-down in the useful life and value of assets. There is substantial unrecovered historical investment and need to invest to provide methane users with continued energy security and energy resilience. Through repurposing, consumers are protected from the risk of stranded assets through an extension of the asset's useful life and fair value transfer of assets between natural gas to CO_2/H_2. Repurposing strengthens the incentive to invest in maintaining the methane network and removes need to accelerate asset depreciation.

109. The Hydrogen Transport Business Model (HTBM) is due to provide funding for hydrogen programmes to deploy repurposing and new build networks but will not drive innovative approaches to delivering hydrogen opportunities in the future. The inability for networks to progress hydrogen projects for a 5-year period will significantly impact competitiveness of this option. The proposals highlighted in our business plan look to improve the efficiency of deploying hydrogen developing from our RIIO-2 evidence on network capability. In RIIO-2 Ofgem included the HyINT mechanism to enable hydrogen specific projects to be progressed if justified and aligned to broader government decisions. We believe this mechanism should be repeated in RIIO-GT3 if baseline funding is removed.

110. Our current understanding of approach for network transition to hydrogen is that it is desirable to repurpose as much natural gas network as possible to reduce the cost of the transition. We believe this will be a key driver in the HTBM funding for hydrogen network development. The work undertaken in RIIO-2 has provided the baseline information for network repurposing and evidence of capability. We are now developing our operational and transition approach which would not be funded through HTBM. We require innovation funding to continue to support and develop novel approaches to repurposing natural gas networks in order to drive down the cost of the transition and prevent costly decommissioning activities.

The spending review decision to fund and progress Acorn and the subsequent SCO2T project will mean that in the timeline of RIIO-GT3 we will be transitioning assets to Carbon transportation. Whilst we have undertaken some work on repurposing for carbon, we believe there is further technical innovation in the field of venting,

emergency procedures and asset integrity that will ensure safety and reduce environmental impact of the repurposed system.

OVQ22. Do you agree that £2.5m of additional network innovation allowance (NIA) should be used to provide enhanced advisory services for innovators at the early stages of innovation development?

111. We agree with supporting early-stage innovators and already support startups and small SMEs to develop solutions for their network utilising innovation funding. At the early stages of innovation, developments are often focused on emerging technologies and markets which are very likely to include topics covered by the future of gas. If this topic is not in scope, it should be clearly articulated to innovators to avoid confusion and wasting time. In the case that none of the innovators are related to gas, we question if the gas networks should fund and support these activities that they may be unable to provide guidance on.

112. We agree that funding for early innovator development should be proportional to the level of NIA received but believe that the innovators should be relevant to the networks supporting them. We would be supportive of an alternative approach, whereby a percentage of NIA spend on early innovator development would be evidenced by each network and focussed on topics associated to their network.

113. There are several organisations that support us on early-stage innovation development, each with their own specialism. The way in which parties are selected to support this needs to be a fair and transparent procurement process to procure this service. Currently, we cannot identify one organisation that could successfully bring together all the right innovators across the broad technology areas. Therefore, we believe that a central network group, supported by multiple innovators representative groups, would be sensible.

OVQ23. Do you agree with our approach to improving oversight and reporting of the NIA?

114. We welcome the investment in ensuring value tracking of innovation activities and have highlighted several improvements to the Innovation Measurement Framework (IMF) through RIIO-T2. During RIIO-T2, we have demonstrated an ability to implement innovation into our business and have provided £207m of benefits through the implementation of RIIO-T1 innovation projects to date.

115. As part of our value tracking process, we monitor how well we predict benefits and improve our approach for future projects. RIIO-T2 has been more challenging to predict benefits, as most projects were aligned to enabling network assets to be used for hydrogen and/or carbon. The implementation of these projects can only occur when a network asset is re-purposed but will have very large values associated with them on this occurrence.

116. As we progress into RIIO-GT3 and can prove that our network can be utilised in the energy transition and beyond, we will be able to support innovations across our network to improve its capability and ensure its resilience for the future. This will enable improved accuracy in value tracking and support Ofgem's desired approach.

117. We fully support the transition to the enhanced IMF 2.0 framework and are actively updating our internal processes to align with its proposed metrics and reporting standards. We actively support the IMF Delivery Group, led by ERM, to direct and provide insights to develop requirements for new framework. In preparation for the outcomes of the IMF 2.0 trial, we are upgrading our value tracking platform, DFN, to accommodate the new suite of metrics and key performance indicators (KPIs), including both qualitative and quantitative benefit categories. This will ensure that our innovation reporting is consistent, standardised, transparent, and aligned with Ofgem's expectations.

118. We agree with the approach of scaling metrics based on the Technology Readiness Level (TRL) of projects, ensuring that reporting requirements are proportionate and meaningful at each stage of innovation. Furthermore, our RIIO-GT3 project business cases will be structured to reflect these updated requirements, enabling robust, evidence-based value tracking across the full lifecycle of our innovation portfolio.

OVQ24. Do you agree with our proposals to allocate £500m for SIF funding?

119. We support Ofgem's continued commitment to innovation through the Strategic Innovation Fund (SIF) as a vital mechanism for delivering a secure, affordable, and net zero energy system. However, we believe the proposed allocation of £500m for RIIO-GT3 is insufficient for the following reasons:

- **Inflation** - The proposed £500m allocation broadly aligns with the RIIO-T2 SIF budget, but significant inflation of20–25% from 2021-25 reduces it real value to ~£400m in 2021 terms.
- **Expanded scope** - We welcome the proposal of expanding the number of activities, including a £50m deployment fund (carved out of the total allocation) and a greater emphasis on cross-sector collaboration, whole-system transformation, and rapid deployment. To be effective, this expansion of activities would require additional resources.
- **Reduced Network Innovation Allowance (NIA)** - Ofgem's proposal to reduce NIA funding for networks from RIIO-T1 and RIIO-T2 values increases the pressure on the SIF mechanism to deliver innovation.

120. In order to maintain the real-terms value of the SIF and support its expanded role, we encourage Ofgem to increase the allocation to £600-650m.

OVQ25. Do you agree with our proposals to introduce a 'Programmatic Approach' to the SIF?

121. We are generally supportive of this proposal, as long-term SIF challenges should be helpful for planning and direction setting. However, whilst SIF is designed to be cross-sectoral, we have some concerns that this could lead to fewer opportunities for gas transmission innovation for the following reasons:

Electricity-centric innovation focus

122. The long-term SIF challenges and innovation targets will be set by a taskforce, and there's a risk that these could be dominated by electricity priorities due to the scale of investment and urgency in electricity transmission.

123. Current challenges are often on specific electric-related grid technologies which risks limiting innovation. We believe the innovation process should be 'problem orientated' and open to all solutions to achieve the best outcome. For example, in round 5, gas networks were only eligible for 2 out of 7 challenges, with one of these being for whole systems, ie. gas and electricity.

124. Future Energy Scenarios (FES) 2025 calls for coordinated strategic planning across electricity, gas, hydrogen, CO_2, and bioenergy. Therefore, dedicated gas innovation challenges aligned with natural gas, biomethane, hydrogen and CO_2 should be included.

Uncertainty around the future of gas

125. The hydrogen heating and hydrogen blending policy decisions are separate to those of hydrogen/carbon transport infrastructure (eg, pipelines for industrial hydrogen use or hydrogen power generation). At present all Future of Gas topics have been excluded from NIA and SIF, as they are waiting on the heat and blending decision. This means we are unable support Clean Power 2030, Industrial Clusters and CCUS. The assumed overlap of funding mechanisms for hydrogen transport infrastructure are unclear and not aligned to the guidance currently in place, such as for the hydrogen transport business model (HTBM). This needs further consideration to avoid confusion and ensure innovation gaps are not unintentionally created. This is especially important where no alternate funding route exists, eg, areas where innovation is needed for repurposing the network for hydrogen use in industry or power generation.

126. If government policy decides to proceed with hydrogen heating or blending, Ofgem has proposed that the associated costs could be considered under the net zero uncertainty mechanisms. However, this mechanism is not appropriate for innovative development activities.

127. On page 103 of the Draft Determinations Overview Document, Ofgem state, 'We also note there is the potential for overlaps with other funding mechanisms, including DESNZ's HTBM. As such, our SSMD decided that RIIO-GT3 should not fund further development of hydrogen transport infrastructure — since this can be supported through the HTBM — nor should it support further evidence gathering for hydrogen heating or blending until after government policy decisions are made in these areas.'

    DESNZ's HTBM is not designed to support innovation projects. It is a regulatory and financial framework that enables large-scale hydrogen pipeline development by de-risking private investment through a Regulated Asset Base (RAB) model and providing long-term revenue support via government-backed contracts. It focuses on mature infrastructure projects which are 'technically and commercially viable, with a high degree of confidence in delivery', not innovative or early-stage technologies. The funding is not grant-based and has a complex regulatory process. It is also untested, with no hydrogen transport projects being formally funded under HTBM as of mid-2025.

128. We require further clarity on the eligibility of Carbon Capture and Storage (CCS) innovation in the proposed Programmatic Approach. CCS has been highlighted in the 'ten point plan for green industrial revolution' as a key pillar to drive the UK towards achieving the Government's legal commitment to achieving net zero by 2050. Whilst some CO_2 repurposing-related projects have been funded under the SIF, such as Beta FutureGrid:CO2, others have not.

Deployment fund access

129. The new £50m deployment fund is open to all proven innovations. However, if the SIF challenges are electricity-heavy, gas innovations may struggle to reach the deployment stage or risk being de-prioritised.

130. More clarity is needed about the taskforce responsible for setting innovation challenges. For example, we welcome detail on how it will engage with wider energy stakeholders; consumer groups, academia, SMEs, and local authorities and existing innovation governance structures (eg, ENA, FEN, UKRI).

OVQ26. Do you agree with our proposal to introduce a £50m deployment fund, utilising £50m from the total £500m SIF allocation?

131. Yes, in principle we agree that this should help accelerate the implementation of innovation. However, a similar mechanism in RIIO-T1 was difficult to apply for, so it's important that the practicalities of how we access this are considered.

132. We welcome further clarity as to whether this will be managed as another phase of SIF applications' 'delta phase', with criteria and CBA, as per the SIF projects. We agree with a 2-year review of delivered benefits in most cases but suggest that a 5-year period is considered for larger projects, as not all will deliver in this timeframe. We suggest that Ofgem consider the fact that we undertake and report on annual value progress assessments.

133. In our Innovation Strategy (NGT_A04_Innovation_Strategy_RIIO-GT3) and in separate consultations with Ofgem, we provided insight into the need for a scale up and rollout fund. In some of the examples of this work we found that the scale of funding for this topic can vary greatly and in most cases is minimal. Therefore, we welcome clarity on whether there is a materiality threshold for applications to this fund.

134. The rollout fund would have been beneficial for us for the GRAID NIC, for example, where funding to help deploy the innovation could have been provided. Instead, we had to wait to the next price control to request further deployment funds. In consultations with Ofgem, we also discussed how the funds could be used to help provide smaller amounts of funding to help carry out additional design work to help deployment. For example, where an NIA project has demonstrated a specific new asset in a certain size, but additional design work is needed to apply this to all of the relevant sizes for the National Transmission System (NTS).

OVQ27. Do you agree that the deployment fund should also be open to innovation projects that haven't been funded through NIA, NIC or SIF?

135. We agree that this should improve flexibility and help with implementation of BAU projects which haven't necessarily been funded through NIA or SIF. However, we welcome further details. For example, on expected Intellectual Property (IP) arrangements, we would need to know if this fund would require sharing of foreground IP from alternatively funded innovation projects.

OVQ28. Do you agree with our proposal to reverse the SSMD position of removing the Discovery phase from SIF?

136. We agree with this proposal, as the NIA allowances have been substantially reduced and are not at a suitable scale to enable us to undertake discovery. The approach to introduce 'cycles' has also given us flexibility to jump into alpha and beta at multiple points during the year, as required.

OVQ29. Do you agree with our proposals to retain the core aspects of the SIF for RIIO-3?

137. We generally agree with the proposal to retain the core aspects of the SIF, as multiple application windows or 'cycles' is helpful and improves flexibility. However, the taskforce responsible for setting innovation challenges should make sure challenges are technology-agnostic, to ensure innovation does not prematurely exclude other options. FES 2025 calls for coordinated strategic planning across electricity, gas, hydrogen, CO_2, and bioenergy. Therefore, dedicated gas innovation challenges aligned with natural gas, biomethane, hydrogen and CO2 should be included.

OVQ30. Do you agree with our proposals for a more flexible approach to contribution rates to fund SIF projects?

138. We understand and agree with the principle behind having a more flexible contribution rate, however, we need more information, such as:

- how contribution rates be determined, whether by project partners or UKRI in another way
- whether Ofgem or UKRI will review every project proposal individually to determine level of risk and subsequent acceptable contribution rate, and if so, when in the application process this would happen

139. This is important in determining the approach to contracting and IP ownership, as the greater the contribution from partners, the more benefit they will expect from the outcome of the project.

OVQ31. Do you agree with updating the SIF eligibility criteria and assessment process?

140. We agree that the assessment process needs to be updated, specifically in terms of feedback quality. We have projects approved by IUK's external assessors, only to be declined by Ofgem. In other cases, in-person feedback sessions with UKRI have not provided any further information on the assessors comments other than what has already been provided. This feedback often provides no guidance on improvement.

OVQ32. Do you agree with our proposal to establish a direct pathway for transformative projects to seek Ofgem's support for funding?

141. We agree with Ofgem's proposal. This flexibility is helpful and will allow innovative and transformative projects to progress more quickly.

OVQ33. Do you agree on the need to clarify roles and responsibilities within the innovation ecosystem, and the factors that we should consider?

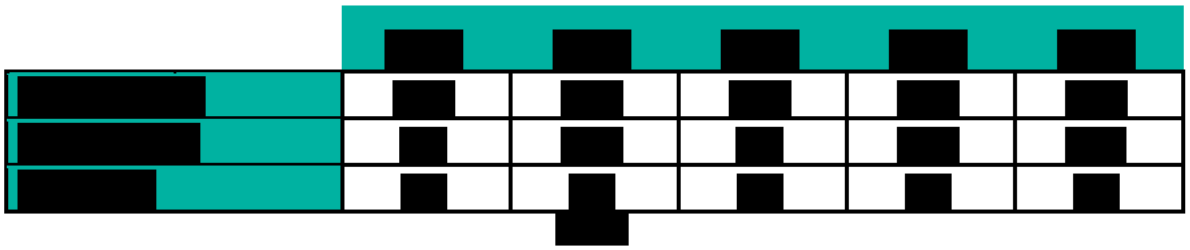
142. We agree with this need. For example, the requirement for NESO to be a project partner in whole-system related SIF projects, creates a risk of bottlenecks which could slow down or stop potential innovation projects.

OVQ34. Do you agree with our approach to improving reporting of deployed SIF projects and lessons learned post-funding?

143. We agree that it is important to learn lessons from completed innovation projects. This approach will need careful consideration to ensure learning is understood and disseminated effectively. A more targeted approach than the currently required 'show and tells' is needed, that brings together relevant stakeholders and use workshops to explore how lessons can be turned into actions.

[redacted]

[redacted]



[redacted]

OVQ36. Do you agree with our position of not changing the Digitalisation licence condition?

166. The Digitalisation licence condition has been in place throughout RIIO-T2. The detail underpinning the obligations in the licence are contained within the referenced Digitalisation Strategy Action Plan (DSAP) Guidance and Data Best Practice Guidance.

167. We have not had confirmation if these will continue unchanged from RIIO-T2, or if changes will be made to them for RIIO-GT3.

168. Nor have we been given any specific feedback on the content we have published or any direction to provide different content in relation to our published DSAP.

169. Whilst we agree with the general concept of retaining the Digitalisation licence condition, we need further clarity on the contents of the guidance that underpins it before we can confirm our agreement with Ofgem's position of not changing it.

OVQ37. Do you agree with our proposed approach to the DSI licence condition?

170. We recognise the importance of a future Data Sharing Infrastructure (DSI) and support its potential to unlock significant benefits across the energy sector. Improved digitalisation and more effective data sharing can drive efficiencies, enable innovation, and support better decision-making across system participants.

171. We acknowledge Ofgem's intent to introduce a licence condition to support DSI participation and appreciate the clarity provided around the proposed outcomes, including the deployment of a Data Preparation Node and adherence to a trust framework. These are sensible foundations for enabling secure and interoperable data exchange.

172. However, we note that the licence condition is still under development and that key elements of the DSI – including its governance, technical standards, and delivery timelines – remain subject to further definition. In this context, we believe it is premature to comment on the policy underpinning the licence condition in detail.

173. We would welcome further detail on when Ofgem anticipates the DSI condition being operational and the opportunity to review and provide feedback on both the policy and the licence condition once these are available. We are also happy to collaborate with Ofgem and the DSI delivery body to support the development of a practical and effective framework that reflects the needs and capabilities of network companies.

OVQ38. Do you agree with our proposed design of the Digitalisation re-opener?

174. We support the inclusion of a dedicated digitalisation re-opener within the RIIO-GT3 framework.

175. We welcome the decision to replace the RIIO-T2 Non-operational IT Capex Re-opener with a common digitalisation mechanism. This represents a meaningful improvement, particularly through the inclusion of operational expenditure (opex) within the scope of the re-opener. This change better reflects the evolving nature of digital investment, where benefits are increasingly delivered through services, platforms, and agile capabilities rather than solely through capital infrastructure.

176. We are satisfied with the proposed re-opener window in July 2028, which provides a clear and timely opportunity to assess digitalisation needs. Additionally, we support the inclusion of an Authority trigger, which ensures flexibility to respond to emerging priorities or systemic developments outside the scheduled window.

177. We support Ofgem's application of the default materiality threshold (set as the proposed adjustment to allowed revenue, when multiplied by the totex incentive mechanism (TIM) rate, exceeding 0.5% of annual average ex ante base revenue) to this re-opener. We note that use of the materiality threshold in this instance will help avoid excessive re-opener applications, reducing administrative burden on Ofgem and licensees. We also anticipate it will ensure only material issues with clear consumer value are brought forward. Further, we welcome Ofgem's position 'that where costs fall below the materiality threshold, we consider these can be addressed at RIIO-3 closeout or in the next price control review.'