



Independent Networks  
Association

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### **SECTOR SPECIFIC METHODOLOGY RIIO-3**

The Independent Networks Association (INA) welcomes the opportunity to respond to Ofgem's consultation on the sector specific methodology for RIIO-3. The INA is the trade association which represents the interests of Independent Gas Transporters (IGTs) working across Great Britain who operate networks for three million gas customers. The membership of the INA are likely to be both directly and indirectly impacted by the outcomes of the RIIO-GD3 price control and so are glad of the chance to feed into this consultation. We note, however, that some of the points which we have raised may require broader discussion and so we would welcome opportunities to continue to engage with the Ofgem team working on this, and other areas.

IGT members of the INA operate under a relative price control framework which limits charges that they can make to energy suppliers to being equivalent to that of the upstream, incumbent network operator. Additionally, there is a 'floor and ceiling' mechanism in place (of plus or minus 5%, subject to RPI adjustment) which puts further constraints on IGT prices rising in line with Gas Distribution Network (GDN) charges. It is, therefore, important that the revenue and costs which are attributed to the upstream operator accurately represent the costs which may be incurred by an IGT substituting those services.

Ofgem's sector specific methodology sets out, in a number of areas, the case and need for change in the way that the energy networks will need to be funded throughout the late 2020s and into the 2030s. As independent network operators these changes are likely to have an impact on INA members by proxy through the application of the relative price control framework. We have not sought to provide detailed answers to each of Ofgem's questions. We recognise that our members may submit their own responses. However, there are four areas which should be highlighted:



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- To ensure that cost recovery remains fair across customer types, as well as intergenerationally, we would not wish to see the introduction of changes in RIIO3 which increases charges for one category of customer (those directly connected to incumbent operators) which are not equally applied to another (IGT connected customers). Repurposing and decommissioning of the gas networks is likely to have an impact on IGTs in broadly the same way that it will impact on GDNs. Although Ofgem does not envisage significant cost in this area during the proposed timespan of RIIO-GD3 we welcome the acknowledgement that it may be appropriate to spread the burden of this expected future expense between current and future customers. As noted above in respect of the regulatory depreciation, it remains important that IGTs can be funded through the relative price control framework where GDNs, and therefore IGTs, incur costs related to these activities.
- We anticipate significant volumes, and cost, of disconnection to the gas networks over the next price control if Government targets on heat pumps are met. Disconnection costs which are borne by networks will need to be recovered from network users in a fair, and proportionate way, maintaining the balance between existing and future consumers. We anticipate that this will impact IGT networks and believe that the current framework will need to be modified to ensure that IGTs can recover the costs which it reasonably incurs in ensuring safe operation of their networks. It is likely that these costs will be significant for individual customers who disconnect and it is important that Ofgem's price control provides an opportunity for these costs to be 'prepaid' from current customers who may benefit from disconnecting and avoiding the costs associated with disconnections and decommissioning.
- It is important that outcomes from RIIO-GD3 do not have unintended consequences on the proposals for a Hydrogen Transport Business Model which could inadvertently reduce competition for the delivery of networks and risk cross-subsidy or inefficiency of delivery. IGTs have a proven track record of delivering for customers and the GDN price control should not have the outcome of foreclosing this market by providing revenue funding of any activities which could be better delivered in a competitive environment.

Overall, these areas highlight the potential need to ensure that the current relative price control framework remains fit for purpose, given that we are currently awaiting UK Government policy decisions which will impact the future use of the gas networks and



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proposals on specific heat in buildings policies are being consulted upon in Scotland. We would welcome engagement with Ofgem to ensure that the IGT framework continues to deliver appropriate customer outcomes whilst enabling to IGTs to access the funding required to fulfil the obligations imposed on it by its licence.

If you have questions in relation to the points made in the letter, we welcome continued engagement to ensure the best outcomes for existing and future customers.

**Nicola Pitts**  
**Executive Director**