

RIIO-3 Sector Specific Methodology Consultation (SSMC)

Gas Transmission



Transmission Workgroup

Item	Title	Page
1	Introduction to the Sector Specific Methodology Consultation	3
2	Our approach for RIIO-3	4-10
3	Questions	11-13
4	Timelines and Next Steps	14-16

- The next set of price controls for the transmission and gas distribution networks begin on 1 April 2026 and will run for 5 years to 31 March 2031. This price control period will be known as RIIO-3.
- In October we set out our **Framework Decision** for the price controls.
- On 13 December we published our more detailed [**Sector Specific Methodology Consultation \(SSMC\)**](#).
- [**GT Annex**](#) sets out our positions and stakeholder questions relevant for RIIO-3 gas transmission.
- Through this consultation we are asking stakeholders to give us their views on the methods we will use to set the RIIO-3 price controls.
- The consultation window will run to **6 March 2024**.
- **Industry engagement** to take place in Q1 and Q2 of 2024.

Our approach for RIIO-3

- 1. Infrastructure fit for a low-cost transition to net zero:** Network companies must facilitate a low-cost, environmentally sustainable, low carbon energy system that enables the transition to net zero, with infrastructure built at pace;
- 2. Secure and resilient supplies:** Network companies must deliver a safe, secure and resilient network that is efficient, data rich and responsive to change. Consumers should have access to gas and electricity supplies that are resilient to physical, financial, climate and cyber shocks;
- 3. High quality of service from regulated firms:** Network companies must deliver a high quality and reliable service to all consumers and network users, including those who are in vulnerable situations; and
- 4. System efficiency and long-term value for money:** Network companies must deliver an efficient cost of service, minimise the costs to consumers of system transformation and ensure consumers and network users get a fair deal.

- **Strategic planning:**

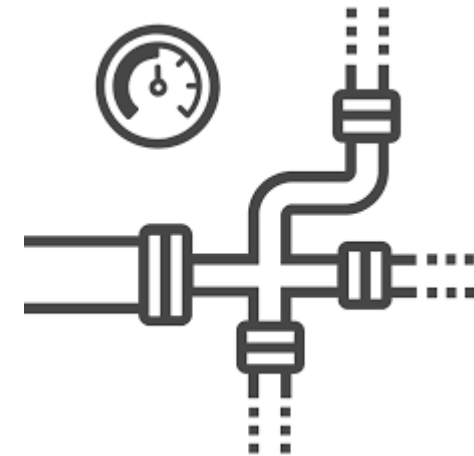
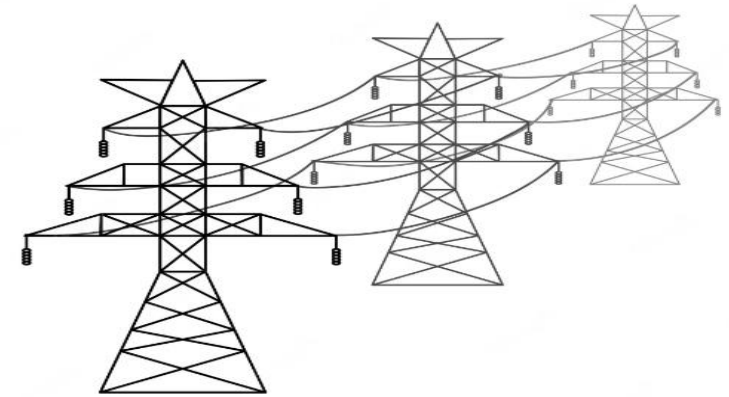
- Future System Operator and Regional Energy System Planners to define investment need

- **Electricity Transmission:**

- Expect significant increase in demand and resulting sharp increase in scale and pace of network investment
- Approach to funding major new ET projects builds on accelerated strategic transmission investment (ASTI) regime
- Coherent with Winser review and Transmission Acceleration Action Plan

- **Future of Gas:**

- Decline in demand
- Uncertainty around future scale of hydrogen use
- Maintain safe and secure supply in the medium term



- **Climate resilience:**

- Impact of more extreme and severe weather events
- Need for proactive action to manage risk

- **Cyber:**

- Becoming increasingly reliant on digital technologies
- Need to ensure systems and processes are protected

- **Network Resilience:**

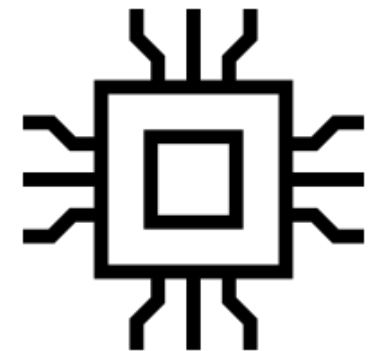
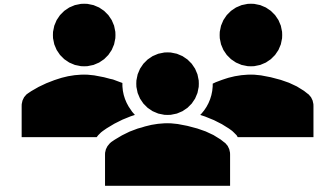
- Asset base remains key to delivery of safe and reliable supply

- **Supply chain and workforce resilience:**

- Growing importance due to competition for supply, particularly as electricity network expands



- **Reliable and safe supply:**
 - Remains the most important aspect of service for consumers
- **Customer service:**
 - Want to build on and sustain the improvements seen in RIIO-1 and RIIO-2
- **Consumers in vulnerable situations:**
 - Ensuring networks provide protection and support where they are best placed to do so
- **Connections:**
 - Significant challenge in electricity transmission but of importance in all sectors; work already underway, which RIIO-3 will support
- **Incentives:**
 - We will continue to incentivise where it drives performance improvement in areas consumers value most



- **Cost Assessment:**
 - Want high quality business plans that deliver the outputs consumers want through efficient, well-justified expenditure
 - Focus on stability and predictability but will evolve approach where it is appropriate to meet new challenges
- **Incentivisation:**
 - Will continue to use truth telling and efficiency incentives to encourage network companies to focus on delivering value for money
- **Innovation:**
 - Important for driving long term efficiency in the sector, and innovative approaches to achieving net zero
 - Want to optimise the approach to give the best ideas the greatest chance of success and achieve pull through to business as usual
- **Digitalisation:**
 - Critical enabler for driving sector efficiency
 - Focus is on developing data sharing infrastructure and streamlining regulatory reporting
- **Managing Uncertainty:**
 - Expect to sustain the suite of uncertainty mechanisms to adapt allowances in-period where this is the right approach to protect consumers and network companies from risk

Gas Transmission Outputs

Gas Transmission Outputs:

Infrastructure fit for a low-cost transition to net zero

Output	Purpose	RIO-GT2 position	RIO-GT3 SSMC position
Environmental Action Plan (EAP) and Annual Environment Report (AER)	To ensure that NGT takes responsibility for the environmental impacts arising from its network and is more transparent in what it is doing to mitigate these.	ODI-R. NGT submitted an EAP as part of its RIO-2 business plan submission, identifying value for money initiatives and activities to reduce the environmental impacts of its networks. Funding allowances and PCDs were set. NGT must report annually on progress.	Revised RIO-2 output
Environmental Scorecard	To reward or penalise NGT for its performance in seven environmental areas as compared to annual improvement thresholds.	ODI-F	Remove
Greenhouse Gas Emissions	To encourage NGT to consider environmental impacts when deciding to vent from compressors.	ODI-F, Target 2,897 tonnes of natural gas annually. Symmetrical incentive -/+£1.5m penalty/reward.	Revised RIO-2 output
NTS Shrinkage	To incentivise the SO in efficient procurement of own use gas/electricity for the operation of compressors, unaccounted for gas and energy that can't be billed.	ODI-R; obligation to forecast shrinkage volume and cost. LO to investigate the reasons behind UAG and CVS gas.	Revised RIO-2 output
Redundant Assets	To provide funding in RIO-3 for NGT to decommission network assets that are now redundant.	PCD	Retain from RIO-2
Compressor emissions	To ensure that NGT can fund projects whilst protecting consumers from inefficient expenditure.	PCD	Retain from RIO-2

Gas Transmission Outputs:

Infrastructure fit for a low-cost transition to net zero

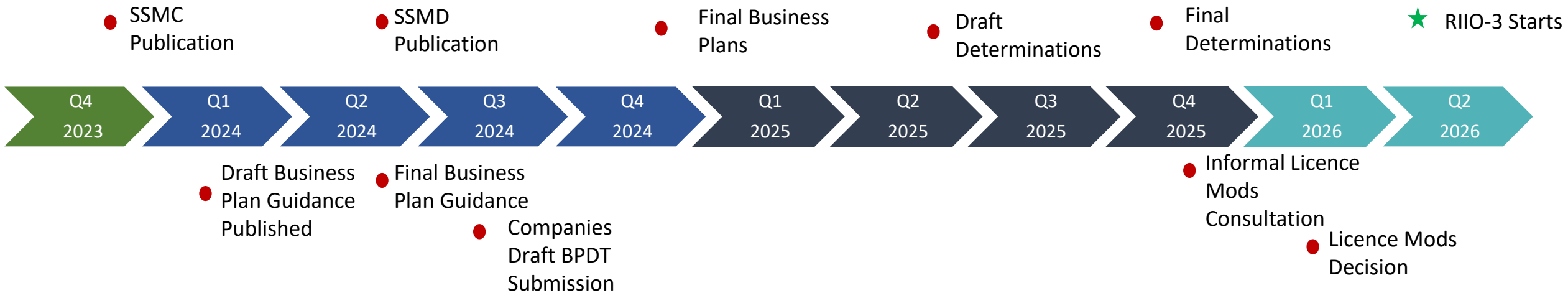
Output	Purpose	RIIO-GT2 position	RIIO-GT3 SSMC position
Annual network capability assessment report	To encourage NGT to demonstrate greater transparency about the physical capability of the NTS, and to facilitate better understanding of how this impacts new network investment, operational constraint management and the management of network access.	LO	Propose to remove
Asset health – non-lead assets	To protect consumers from the non-delivery of allowed volumes for non-lead assets.	PCD	Retained from RIIO-2
Bacton terminal site redevelopment	To hold NGT to account for the delivery of the Bacton terminal redevelopment investment to provide an enduring solution and allow the connected terminals to continue to operate into the 2040s.	Re-opener and PCD	Propose to remove
King's Lynn subsidence re-opener and PCD	To deliver the work to fix issues with bi-directional flow pipelines at King's Lynn compressor station where subsidence issues were causing stress on the pipework at the site, causing safety, security of supply and environmental risks.	Re-opener and PCD	Propose to remove

Gas Transmission Outputs:

High quality of service from regulated firms

Output	Purpose	RIIO-GT2 position	RIIO-GT3 SSMC position
Customer satisfaction survey	To drive improvements in the quality of customer service through customer satisfaction surveys.	ODI-F, Target 7.8/10 points, symmetrical rewards/penalties +/- 0.07% of annual average ex-ante Base Revenue.	Revised RIIO-2 output
Stakeholder satisfaction survey	To encourage NGT to provide high levels of stakeholder satisfaction.	ODI-R, Target 7.4/10.	Remove
Quality of Demand Forecasting	To encourage NGT to improve accuracy of its forecasts, with a financial incentive on NGT for D-1 forecasts and a reputational incentive for D-2 to D-5 forecasts.	ODI-F for D-1, Target for average absolute forecast error is 8.35 mcm/d + demand forecast storage adjustment up to +1mcm/d. -/+£1.5m a year penalty/reward. ODI-R for D-2 to D-5, Target 13.70 mcm/d.	Revised RIIO-2 output
Maintenance	To incentivise the SO in efficient planning and delivery of network maintenance on the NTS.	ODI-F, symmetrical for Use of days (non-RVO work). Target: 75% of customer impacting work aligned, penalty-only for the Changes and Use of days for RVO work schemes. -£1.5m/£0.5m a year penalty/reward.	Revised RIIO-2 output
Entry and Exit Constraint Management	To deliver efficient overall cost of SO constraint management actions and encourage balanced risk v. reward decisions in releasing additional capacity.	ODI-F, Target 8.5m a year, symmetrical, -/+£5.2m a year penalty/reward.	Revised RIIO-2 output
Residual Balancing	To incentivise NGT to maintain system balance while minimising impact on market.	ODI-F, Linepack performance measure limit of 2.8mcm/day, PPM of 1.5% from SAP. -£2.8m/£1.5m a year penalty/reward.	Revised RIIO-2 output

RIIO-3 Timelines



Q1 and Q2 Industry Engagement

Date	Audience & location	Summary	Items to cover
25 January	GT Specific – Teams call	Incentives – Meeting the needs of network users	CCM deep dive
2 February	GT Specific – Teams call	Incentives – Reducing environmental impact	NTS Shrinkage deep dive
14 February	GT Specific – Teams call	Incentives – Reducing environmental impact	GHG Emissions and other environmental incentives
29 February	GT Specific – Teams call	Incentives – Meeting the needs of network users	Residual Balancing, Maintenance, Demand Forecasting
14 March	GT Specific – Teams call	Incentives – Meeting the needs of network users	Customer Satisfaction Survey

Annex



Overall themes of the Financial Framework proposals for RIIO-3:

- **Support ongoing investment** and achieve **value for consumers** through use of a broadly stable and familiar 'one-package' approach used in RIIO-2.
- Incorporate concept of '**investability**' alongside **financeability**, recognising scale of investment required in coming decades.
- Make **incremental improvements** to methodologies and policies. Updates include:
 - **Regulatory best practice** – such as adopting the UKRN Guidance and considering improvements to financial resilience measures.
 - **FSNR Framework Decision**, such as considering varying beta by sector to **better capture risks**, and updating **regulatory depreciation** approach to adapt to **net zero policy development**.
 - **Inflation Call for Input** response, such as considering improvements to the cost of debt methodology.

Ofgem is the Office of Gas and Electricity Markets. We are a non-ministerial government department and an independent National Regulatory Authority, recognised by EU Directives. Our role is to protect consumers now and in the future by working to deliver a greener, fairer energy system.

We do this by:

- **working with Government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.**
- **stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.**
- **enabling competition and innovation, which drives down prices and results in new products and services for consumers.**