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Dear Nathan

We welcome the opportunity to respond to Ofgem's Draft Determination (DD) consultation for Gas Distribution for the RIIO-GD3 period from 1 April 2026 to 31 March 2031.

Energy transition to net zero carbon gathers pace; but safety, reliability, protection of consumer interests and fairness to investors will remain enduring requirements. Gas networks will evolve and continue to play a vital role in the UK's energy system. We can support the delivery of net zero while offering choice, great service, affordability for consumers, and importantly maintaining strategic resilience and security for the UK. The UK Government has acknowledged that to remain safe, reliable and affordable, the gas networks require ongoing investment. It has also acknowledged that investors need confidence that they will get a fair return on their investment, including money already spent on the network. Being fair to investors is in consumer interests.

Against a background of needing more investment in a time of increased uncertainty, our Business Plan for RIIO-GD3 was prepared to sustain high levels of network safety and reliability, with the service our consumers expect, while being fair to investors. However, the proposed allowances for Totex, cost of capital and incentives restricts our ability to deliver on those objectives. Given this, we are asking Ofgem to reconsider and resolve a number of issues, discussed below.

Ofgem's Totex approach:

There are significant limitations to the approach Ofgem has taken to cost assessment, and the regression analysis used in setting Totex. Ofgem is over-reliant on a simple regression model and the forecasts made by the other GDNs that have different circumstances and histories to our own. This is an insufficient position from which to forecast future efficient spending levels in our region.

Some examples are:

- The treatment of LTS pipeline replacement projects, their associated costs and their inclusion in the Totex regression analysis is inconsistent with previous price controls and does not assess GDNs in a consistent manner.
- We have identified several improvements to the data and approach to Mains Replacement assessment which Ofgem should adopt to give a more consistent analysis across the GDNs. Ofgem should also take into account the evidence we have assembled regarding the market testing of the cost of this mains replacement work.
- We have identified issues with the IT and NIS cost assessment we are keen to work with Ofgem to resolve

- There are insufficient adjustments where standards such as emergency response have been failed
- There is an inadequate assessment of ongoing efficiency based on available evidence.

As part of this response, we also include analysis that we have undertaken of Ofgem's cost assessment regression work.

Our work, which we have shared with Ofgem's teams through working groups or bi-laterally, demonstrates that appropriately adjusting for the limitations in the current DD will lead to significant improvements to the Totex efficiency analysis and allowances for WWU and other GDNs, while improving the underlying statistical modelling. Unless these limitations are resolved, Ofgem will incorrectly calibrate the required level of expenditure for RIIO-GD3.

In our Executive Summary we highlight areas which, if unresolved, would result in a material adverse impact on us. We explain how correcting for each of these will adjust allowances across the sector and we determine the impact on consumers of these material corrections; individually a number of these reduce consumer bills, while more accurately sharing allowances between the GDNs.

Finance:

We agree with Ofgem's express focus on evidence in seeking to discharge its duties - this is a normal expectation for any price control determination. The importance of this focus for RIIO-GD3 is amplified both by the significant macroeconomic changes since the beginning of RIIO-GD2 and the increased Net Zero carbon risks emerging from RIIO-GD2 to RIIO-GD3, both of which have been rightly acknowledged by Ofgem. As we noted in our Business Plan submission, these circumstances present a particularly challenging task for Ofgem as it approaches its Final Determinations for RIIO-GD3, in setting fair returns for investors and protecting consumer interests. We have worked, and will continue to work, with Ofgem and our peers to get the evidence base right to enable sensible decisions to be made for all stakeholders. In doing so, we are confident that Ofgem and the gas networks will not lose sight of the critical importance of protecting the ongoing operational integrity of the sector, in terms of safety, reliability, customer service and the essential investment needed to sustain this strong position.

In this context, we welcome some methodological improvements made by Ofgem. However, it must go further, to be fair to investors, as that is in consumers' interests, and we wish to raise two overriding matters:

1. Although some positive changes have been proposed by Ofgem in adapting its financial framework to reflect market reality and investor expectations, the proposed cost of equity rate of 6.04% falls well below what is needed to achieve an investible package. Objectively and fairly viewed, market evidence overwhelmingly points to a higher rate. Ofgem is right to acknowledge a gas network premium in debt, and it should follow this principle through to cost of equity, not least because it has explicitly recognised that gas has a less certain future than electricity. Ofgem has also rightly recognised the increasing importance of attracting and retaining equity against a background of significantly increasing infrastructure investment in the UK and globally.[1] Put another way, equity investors have an expanding opportunity set of investment alternatives in the UK and elsewhere. We consider that the proposed 6.04% rate is inadequate in that context. This is particularly so when an equity investor must consider issues relevant to our sector such as uncertainty on distributions, reducing debt investor appetite and greater cost for long debt tenors, a more challenging operational environment and Totex.

   All this with asset stranding risks persisting, notwithstanding proposed RAV depreciation acceleration, government policy uncertainty and with concerns – as published external consultant reports make

[1] RIIO-3 Sector Specific Methodology Decision-Finance Annex, paragraph 3.230

clear – on the regulator's evidence base and judgements being made on that. Our Business Plan proposed rate of 6.89% remains robustly supported by evidence and assumes a fair and balanced package of risk and return.

2. We consider that Ofgem has much more work to do to build an appropriate evidence base and apply fair and objective judgements to that, particularly on cost of equity. We will continue to work with Ofgem and other networks on this matter.

With the Judicial Review to be heard in October, we have made limited comments on cost of debt, for which we maintain our fundamental RIIO-GD2 approach for RIIO-GD3.

In terms of our responses to the Draft Determination documents, some text in our response to the Finance Annex, and several appendices, are confidential and these are clearly marked in our redaction statement. Our response structure is as follows:

1. Executive summary
2. Responses to the RIIO-3 Overview Document
3. Responses to the RIIO-3 Gas Distribution Annex
4. Responses to the RIIO-3 Wales & West Utilities Annex
5. Responses to the RIIO-3 Finance Annex
6. Responses to the RIIO-3 Impact Assessment
7. Responses to the Gas Transmission Annex
8. Appendices

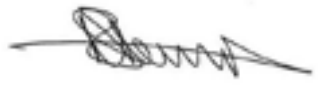
We welcome Ofgem's ongoing engagement on the currently disallowed work and cost assessments outlined in the Draft Determinations. We ask that it engages more on finance matters with the Future Energy Network (FEN) finance working group.

To conclude, we need a package that:

- Funds our efficient and necessary work to safely and reliably maintain our gas network that is integral to residential consumers and businesses across our regions
- Provides adequate allowances for cost of capital to be fair to investors
- Provides an appropriate balance of risks and returns.

This submission has been prepared in accordance with licence condition A55 Data Assurance Guidance (DAG). Should you have any queries on the responses, please do not hesitate to contact me or my team.

Yours sincerely



Neil Henson
Chief Financial Officer
Wales & West Utilities

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RIIO-GD3 Draft Determination Response Executive Summary

We discuss below the key areas that Ofgem will need to address in the Final Determinations to ensure that the regulatory settlement for RIIO-GD3 would be fair to customers and investors and support the long-term sustainability of the business.

Totex

These proposed allowances do not provide an appropriate balance of risk and return and could impair our financeability. They are too low to deliver the required outputs for consumers in a safe, sustainable and compliant manner. The proposed Totex allowances are lower than the RIIO-GD2 allowances - yet we have more essential work to do to keep our network safe and reliable in RIIO-GD3, in an increasingly challenging environment.

Moreover, we have the lowest relative reduction in workload and one of the largest reductions in spend, and therefore the greatest cost efficiency challenge. It is counter-intuitive that WWU, estimated to be relatively efficient at RIIO-GD1 and RIIO-GD2 and focused on delivery and efficiency over RIIO-GD2 (the only GDN to be compliant across emergency, fatigue and HSE tier 1 mains replacement standards), could have fallen down the efficiency rankings to such an extent that it is now considered by Ofgem to be an inefficient outlier. Relative to other networks, we also have a track record of providing accurate, reliable forecasts of costs and workload – a point Ofgem itself has recognised in the Cost Assessment Working Group meetings.

Specific areas that require correction include:

1. The approach that Ofgem has applied to our bespoke Local Transmission System (LTS) Pipeline replacement needs to be updated. While reviewed and supported by Ofgem's Engineering team, costs have been included in the cost assessment regressions which is inconsistent with both precedent and the treatment of other GDNs' equivalent Capex projects. They should instead be Technically Assessed (with an accompanying PCD) and be allowed in full.
2. Totex allowances for Mains Replacement do not reflect the levels of expenditure required to achieve the necessary work in RIIO-GD3, given the sparsity of consumers across our regions and the complexity of the Mains Replacement work to be undertaken.
3. Costs of NIS and other IT Capex have been inappropriately disallowed or included in the regression analysis which leads to inappropriate reduction in allowances for these costs.
4. Cost allowances for failure to meet standards should be reconsidered.
5. The level of assumed ongoing efficiency for the gas networks should be reconsidered and adjusted down from 1% p.a. to 0.5% p.a.

Each of these points is explained in more detail below. However, before we discuss these, we describe the basis of our business planning and Totex estimation.

Our RIIO-GD3 Business Plan recognises the real cost pressures we face and the growing complexity issues over the coming five-year period. Our plan detailed an increase in work activity compared to RIIO-GD2, due to a backdrop of managing a continually ageing asset population, increased requirements in IT, Cyber and Data - and the challenges of closing out an increasingly complex 30-year iron mains replacement programme. These are just a few of the pressures WWU is faced with now, and which will continue as we head into the next price control and beyond.

Working with Ofgem to address some of the issues with the DD

Over the last eight weeks we have been working through Ofgem's policy and methodology decisions, alongside the cost assessment models to understand the rationale for such a high disallowance. Firstly, there are material errors in the cost models that required remediation – a number of these have since been resolved within the Cost Assessment Working Group and a restated position shared. We welcome this collaborative and agile approach to error correction and republication, particularly as the material errors identified disproportionately impacted us.

While this corrected factual errors, there are still many areas of the cost assessment methodology that require change ahead of FDs to ensure fairness and consistency across networks. There are inconsistencies in the treatment of costs (LTS pipelines), methodology and policy choices not adopted (Mains replacement) and concerns identified with other GDNs' submissions which have a detrimental impact on our allowance outcome (Mains replacement – Tier 1 lay diameter band submission).

We consider these unfairly contribute to the large reduction in our Totex allowances and request Ofgem consider each adjustment through the lens of fairness and consistency. In our ongoing engagement with Ofgem, we have highlighted these areas and proposed reasonable solutions to resolve them. Once resolved, the BPI should be recalculated to reflect the Totex position at Final Determinations.

Below are the examples of the most material areas to our position:

1. LTS Pipelines

<u>The issue</u>

In our Business Plan, we included the costs of replacement of 50km of LTS pipelines (representing £81m, or 3.7%, of our Totex submission). We note that the costs of LTS pipelines have been included in Ofgem's cost assessment regressions, resulting in a reduction in the allowances for these costs in the DDs. Assessing LTS costs using the regressions approach is inappropriate for the reasons listed below in "Why Ofgem should adopt the suggested resolution".

<u>Suggested resolution</u>

To address this issue, we require Ofgem to remove our LTS pipeline replacement costs from the regression analysis and have the costs subject to technical assessment. It is important for the integrity of the price control process that these costs are treated consistently and equally by removing them from regression models and allowing for separate assessment. Making this change materially increases our allowances, improves the model econometrics and improves our efficiency score. Ensuring appropriate efficient funding for essential works such as this will ensure a safe and reliable LTS network of critical pipelines that serve our Wales=based consumers.

Why Ofgem should adopt the suggested resolution

Including the LTS costs in the regression analysis gives rise to inconsistent application of the cost assessment methodology, which leads to inappropriate regulatory outcomes and Totex allowances for a number of reasons:

- The LTS costs are unique to Wales. As a result of these costs being sizeable and unique, the application of regression analysis, which is making comparisons to the Totex of the other GDNs, will result in misleading conclusions regarding relative efficiency.
- The proposed LTS replacement programme passed the technical needs case assessment at DDs. Ofgem's engineering review accepted the need case for the work and accepted the cost, as supported by detailed independent reports. In spite of this, retaining in regression means that the work is largely unfunded.
- The treatment of these costs is not consistent with the approach used in RIIO-GD2. We signalled across our Business Plan the requirement for technical assessment remaining consistent with treatment in RIIO-GD2 and noted that these bespoke LTS pipeline costs are not suitable for comparative benchmarking given their scale and uniqueness. Regressing these costs is not consistent with RIIO-GD2 whereas technically assessing these costs will align with the treatment of an equivalent pipeline project we undertook in RIIO-GD2.
- There is evidence that the treatment of LTS costs in the DDs is different to how comparable costs have been addressed for other GDNs in the DDs: reading across the approach Ofgem has taken for the other GDNs in their DDs, this treatment is inconsistent with Cadent's Intermediate Pressure (IP) crossing and SGN's Pressure Reduction Installation (PRI) rebuilds, both of which are separately technically assessed.

2. Mains Replacement

The issue

We were disappointed to see the significant reduction to our Mains Replacement allowances and the continuation from RIIO-GD2 of significant underfunding (in RIIO-GD2 to date it should be noted that WWU is forecast to overspend allowances by circa 20% to ensure that the Repex work required is undertaken). As it stands, we would need to reduce our current efficient actual RIIO-GD2 delivery costs by circa 20% to meet the proposed allowances. A reduction of Mains Replacement spend at this level is not achievable or credible given cost evidence and our many years of experience in successfully delivering this continually evolving HSE-driven risk reduction programme.

Suggested resolution

We would be keen to work with Ofgem to put in place alternative approaches to the assessment of Mains Replacement which properly take into account the cost drivers of:

- Sparsity of service area,
- Increasing complexity of the work being undertaken; and
- The increasing diameters of Tier 1 pipelines.

We have already shared some of this analysis with Ofgem and are willing to support its implementation for Final Determinations. We have presented solutions for implementation into the models and expressed the material impact this has on our allowances. We believe the evidence as presented in our Business Plan and now updated in this DD response (including updated report from consultants Oxera[2]) demonstrates the importance of revisiting the allowances in the DD.

In addition, it is important that Ofgem consider how best to adopt a market adjustment to the Mains Replacement cost allowances to reflect the fact that the cost of the work where we have market tested it, through competitive tender, is greater than the proposed DD allowances (noting that the results of the competitive tender were more expensive than our internal model which in turn is higher than the DD allowances, supporting the insufficiency of the DD allowances and the efficiency of our internal model). We have already presented proposals and solutions to Ofgem on how this could be accounted for and now ask Ofgem to adjust for this material - but currently omitted - cost driver. We would be happy to work with Ofgem to take this forward.

Why Ofgem should adopt the suggested resolution

There are a number of reasons why the allowance in the DDs is too low and requires upward revision:

2.1) The internal delivery model used by WWU delivered significant customer benefit in RIIO-GD2. Using this delivery model we have delivered our commitments, and we will achieve our RIIO-GD2 PCDs. This is not a consistent picture across the eight GDNs; with work being handed back and under-delivery against the Tier1 mains and services Price Control Deliverables (PCDs) across a number of GDNs.

We are confident our largely in-sourced delivery model significantly reduces risk in RIIO-GD3. Specifically, minimising volatility in contractor prices, and limiting the need to compete for labour, in the same market as the other GDNs and the wider utilities sector.

Our successful internal model helps protect our consumers from this risk. In addition to our own costing model, in preparing our RIIO-GD3 Business Plan, we went to market to seek bids to deliver our RIIO-GD3 programme through a formal tender process. The external market's view on costs was higher than our assumption on the equivalent internal model, therefore validating our internal costs as efficient.

2.2) The approach taken by Ofgem to assessing mains replacement for the DDs does not appropriately account for differences in the cost drivers between the GDNs, resulting in an inappropriate calculation of allowances. Following detailed comparative analysis; we have presented to Ofgem and the other GDNs several changes that would, across the eight GDNs, deliver appropriate normalisation for cost drivers and adjust allowances to a more consistent level. These changes would resolve differences that are currently not recognised in Ofgem's models including geographical differences (in particular sparsity) and the increasing complexity of work as explained below:

- *The impact of sparsity,* operating in the most rural regions in the UK with the lowest population density, is a significant cost driver. It is already well recognised that sparsity impacts emergency and repair functions, given the impact on travel distances and drive times required to get to and from sites. We continue to find clear evidence that sparsity materially impacts other parts of our organisation, in particular Repex activities, maintenance activities and facilities costs. For instance, prices received from our mains replacement external tender, where prices were requested and received by geographic region within the WWU footprint, support this with a direct correlation between tender prices and the sparsest regions within our network (North Wales, West Wales, North Devon and Cornwall). The impact of sparsity on Repex activities is also recognised by many of the other GDNs who encounter similar costs and productivity losses. We believe the evidence

[2] Appendix GDQ36A - Oxera (2025) ' RIIO-GD3 draft determinations: sparsity follow-on report'

as presented in our Business Plan and now updated in this DD response (including updated report from consultants Oxera[3]) is robust and compelling. In response to Ofgem's requests, for a "fully coherent regional adjustment proposal"[4] we have now updated and expanded on our proposals and solutions to Ofgem on how this could be accounted for and now ask Ofgem to adjust for this material, but currently omitted, cost driver.

- *The impact of increasing complexity* is a theme now raised by all GDNs; we have presented clear operational and econometric evidence[5] that both the technique to lay the new pipe (which is either through an 'open cut' trench the length of the replacement, or 'insertion' inside the existing pipe), and the pipe material (which is either cast/spun iron or ductile iron), are key cost drivers, both of which are currently omitted from cost assessment models. It's recognised that Ofgem can only accurately calibrate their models where data is consistently available, which is what we have presented. All GDNs submitted the necessary data to Ofgem within their BPDTs, and as such appropriate calibration of cost assessment models can be undertaken explicitly for these cost drivers. While other GDNs point to complexity in other forms, we are yet to see accurate, comparable data and analysis that demonstrates a material impact on GDN costs – and we do not think they do. We think this noise is distracting and deters from the opportunity to incorporate materially significant cost drivers, and our modelling results show model fit improvement by doing so.
- *The impact of other GDN Tier 1 lay diameter submissions*, the inclusion of workload in higher lay diameter bands, within Tier 1, than is operationally justifiable, given the proposed technique (i.e. insertion), has a material impact on regression results by GDN, affecting efficiency scores and ultimately allowances by GDN. History shows these higher lay diameter volumes do not happen in reality, and this has in fact been recognised by the cost assessment team.
- We have already shared our concerns here with Ofgem and we welcome Ofgem's recognition of this issue, raising "concerns about the justification for some of the Tier 1 mains workloads forecasts submitted by the GDNs in their Business Plans".[6]
- In our plan we have analysed every individual pipe we will be working on in RIIO-GD3 to determine the least cost replacement option of that pipe – including whether it needs to be open cut or inserted, and the diameter of pipe to lay. There is a clear methodology and a clear historic trend of lay diameter band delivery – in recent Cost Working Groups[7] it was rightly recognised that our forecasting of lay diameters was highly accurate, and we have delivered closely to that presented in our RIIO-GD2 business plan.
- When we see other GDNs delivering materially different workloads to their RIIO-GD2 business plan submissions and presenting unjustifiable workload shifts in their RIIO-GD3 business plans, we question the quality and consistency of their plans. There is no mechanism to recover costs during, or at the end of, a control if networks lay smaller and therefore cheaper replacement pipes than determined for the control.

Our successful internal model helps protect our consumers from this risk. In addition to our own costing model, in preparing our RIIO-GD3 Business Plan, we went to market to seek bids to deliver our RIIO-GD3 programme through a formal tender process. The external markets view on costs were higher than our assumption on the equivalent internal model, therefore validating our internal costs as efficient.

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[3] Appendix GDQ36A - Oxera (2025) ' RIIO-GD3 draft determinations: sparsity follow-on report'
[4] RIIO-GD3 Draft Determinations – Gas Distribution, p.118, 5.113.
[5] GDQ39A - Oxera Accounting for increased REPEX complexity over RIIO-GD3
[6] RIIO-GD3 Draft Determinations – Gas Distribution, p.141-143, 5.220 – 5.224
[7] Cost Assessment Working Group – 12 August 2025, Ofgem presentation slide 33

We consider it very important for Ofgem to adjust the RIIO-GD3 modelling - to maintain consistency of applying cost assessment principles between the GDNs, and to ensure a fair outcome for consumers. We have presented solutions that remediate this inconsistency based on historic actuals or industry standard practices, both of which would serve to materially correct the errors back to an equitable position.

The above three necessary adjustments for Repex (sparsity, complexity and lay diameter) will represent an appropriate application of cost assessment techniques and rebalance the cost assessment process. However, even when these three corrections are made, there remains a significant gap between the DD allowances and costs that we have received through our market testing process. Our tender evidence demonstrates that our internal operating model is still the cheapest option for our network. It is our stance that Ofgem should consider a market price adjustment to costs, to align allowed mains replacement more closely with what we observe as market rates for the work being undertaken. We would be happy to discuss this approach further with Ofgem.

3. NIS information compliance

The issue

Across our plan there are activities that are critical to meeting our NIS obligations and the demands of the Cyber Assessment Framework - Enhanced Profile (CAF-EP) by the end of 2027. We were careful to keep these activities within their distinct Business Plan Data Template (BPDT) areas as required in BP guidance. Many of these essential activities and their costs have either been disallowed or left in regression at DDs. This is having the effect of providing no or only partial funding for this essential activity to protect our assets against cyber or physical attack.

Approach to resolution

As part of this submission, we present these activities and their associated costs together to demonstrate what we require and why, in order to meet these critical obligations.

We request Ofgem re-assess these activities in line with its cyber methodology.

Why Ofgem should adopt the suggested resolution

The projects we have included in our plan are justified for a number of reasons including:

- A continuation of projects and headcount which are already approved by Ofgem under RIIO-GD2 cyber reopeners, but classified under IT&T
- Capex projects required to meet resilience demands (e.g. IT&T capex)
- IT&T projects where the cost driver is to meet NIS compliance requirements
- Operational assets requiring upgrade to meet security requirements, and physical security upgrades of depots and gas sites recorded within our facility costs.

4.Failure to meet standards

The issue

Ofgem should review the treatment of costs related to failures to meet targets in RIIO-GD2. Given the high and constant standard of delivery WWU has attained in RIIO-GD2, outperforming on emergency standards, for example, it does not appear proportionate that WWU has received the largest BP reduction at DDs.

Approach to resolution

We appreciate an adjustment has been made to reflect fatigue compliance, but this does not correct to a level that offsets our cost of compliance in comparison to the other GDNs.

Emergency response standard failures have also not been corrected for at all, which unfairly penalises those networks that have sufficiently resourced at considerable cost to ensure compliance in RIIO-GD2.

We also recognise other GDNs are forecasting to significantly under-deliver on their RIIO-GD2 Tier 1 mains replacement PCDs, both on Tier 1 mains and Tier 1 services.

Why Ofgem should adopt the suggested resolution

Making the adjustments suggested above will ensure a consistent and proportionate application of the cost assessment approach, while not inappropriately rewarding those GDNs that have failed their standards or under-delivered on their PCDs.

5.Ongoing efficiency (OE)

The issue

At DDs Ofgem set an OE target of 1.0% pa, which is twice that proposed by all the GDNs and Gas Transmission of 0.5% p.a. Our Business Plan proposal of 0.5% p.a. is based on appropriate evidence, is stretching and ambitious given the current economic climate and GD productivity forecasts.

Approach to resolution

We ask that Ofgem re-consider its position ahead of Final Determinations and set an OE challenge which is more appropriate at 0.5% per annum, given the associated evidence.

Why Ofgem should adopt the suggested resolution

The GDNs and Gas Transmission commissioned Economic Insight (EI)[8] to assess the robustness of the DD OE efficiency target of 1% p.a. EI found there are some limitations to Ofgem's analysis. EI identify three errors in how Ofgem has chosen its proposed OE target:

1. In setting its final OE target, Ofgem has erroneously relied on precedent of outcomes at previous regulatory decisions, rather than precedent of methods previously applied to determine those outcomes.
2. In calculating its OE range, Ofgem has erroneously: (i) relied on incomplete business cycles; and (ii) removed three years from its analysis (2008, 2009, 2020), incorrectly referring to them as outliers.
3. Ofgem has placed disproportionate weight on unsubstantiated arguments to select a target from the upper end of the range, while failing to consider countervailing reasons to give weight to the lower end of the range.

In addition, we address other key points of concern with Ofgem's and Grant Thornton's (GTh) approach within our consultation response.

[8] Appendix OVQ19A- Economic Insight 'Independent Review of Ofgem's Draft Determination Approach to Ongoing Efficiency'

Financing

Allowed cost of capital

The issue

Ofgem has further work to do to appropriately appraise, analyse and take into account, on a fair and objective basis, evidence in reaching its proposed cost of capital allowances.

We recognise that Ofgem has made positive statements in their RIIO-3 Draft Determinations - Finance Annex. For example:

- Paragraph 1.4: "Our financial framework is stable and predictable to help attract continued investment into the sector and to set fair returns for companies and investors which in turn lowers costs for consumers"

- Paragraph 3.79: "We agreed that stability in the overall regulatory framework can be important to investors. However, we will always act on the basis of the evidence and will look to make changes and improvements that will help improve our ability to discharge our duties."

Ofgem's above statements carry particular importance for our sector, as Net Zero carbon transition risks continue to intensify alongside significantly higher capital market price expectations following an abrupt change after RIIO-GD2 commenced. Also, Ofgem sees a less certain future for gas than electricity.[9]

In this context, we expect Ofgem to give particular attention to evidence throughout its determinations. Of course, this would be a normal expectation by all stakeholders for any price control, but RIIO-GD3 will not be a steady state continuation of RIIO-GD2 – it will, as Ofgem acknowledges, be riskier[10] and we expect a more challenging operational environment. While we acknowledge that Ofgem proposes some positive steps - such as technical adjustments to methodologies for the CAPM parameters, i.e. Total Market Return and Beta, overall, the RIIO-GD3 Draft Determination Finance Annex fell significantly below our reasonable expectations, such that it is difficult to see how Ofgem's assertions above would be delivered. In our comments below, we will highlight just a few examples behind our concerns.

Suggested resolution

Ofgem should revisit its proposals regarding the cost of debt and equity based on a more appropriate consideration and application of evidence to enable it to appropriately discharge its duties, with appropriate upward revisions to the allowed cost of capital for the Final Determinations.

Why Ofgem should adopt the suggested resolution

We have assembled a broad range of updated evidence and expert evaluation that indicates a higher allowed cost of equity, specifically[11]:

- Our responses to the Finance Annex questions are based on updated evidence and rationale from independent consultant reports, which we have reviewed internally and with our peers in the gas sectors. Individually and together, these reports continue to compellingly support a materially higher allowed cost of equity than Ofgem's proposed 6.04% (real Consumer Price Inflation with Housing (CPIH)). Oxera's mid-point estimate of 6.94% is amply supported by all consultant cross checks, each of which has mid-points materially approximate to or above 6.94%. This updated evidence base

[9] Draft Determination Finance Annex paragraph 1.6
[10] Ibid 3.58, 3.83, 3.118
[11] All figures mentioned in this section are in real CPIH terms, unless stated otherwise.

supports our Business Plan rate of 6.89%, whereas Ofgem's mid-point estimate of 6.04% is below the lower bound of Oxera's range of 6.47% to 7.43%.

- Further, Ofgem's own cross checks, when averaged, indicated a mid-point estimate of 6.5% and a lower bound of 6.1%. Ofgem does not explain why it does not allow that evidence to influence its mid-point estimate. We expect Ofgem to treat Step 2 (cross check evidence on the Capital Asset Pricing Method [CAPM] estimate) with particular care, given the significant macro-economic changes in recent years. Uncertainty was therefore created by Ofgem as to how cross-checked evidence could ever influence a CAPM mid-point estimate. The UKRN's position (which we note is not binding on Ofgem) is that the CAPM mid-point estimate should not change unless there are "strong reasons", not a threshold set so high that compelling evidence should be assigned no weight.
- Ofgem's treatment of cross check evidence from Frontier Economics ("Frontier") contains:
    i. inconsistencies: for example, Ofgem's Market to Asset Ratios (MARs) approach, taken directly from Ofwat, embodies the Dividend Growth Model ("DGM") yet Ofgem expresses concerns about the DGM in Frontier's Total Market Return (TMR) glider despite the fact that the DGM is widely used in regulation, central banking and academia;
- a lack of transparency: for example, in Ofgem's choice of the bid range from OFTO's (Offshore Transmission Owner's) and not disclosing a year-by-year profile even though it did so for RIIO-GD2 and
    ii. a selective treatment of evidence without any explanation: for example, relating to hybrid yield bond data where it cites just 2 out of 55 data points, being the minimum and maximum, when 80% of the data points were within a relatively narrow range. Frontier's TMR glider model is a useful contribution to the important matter of how the allowed cost of equity can be calibrated to reflect a reasonably prudent sensitivity to changing market conditions in TMR. We ask Ofgem to give this helpful proposal greater consideration, particularly given Ofgem's explicit comments on investability in its SSMD, including its express recognition of investor expectations in current market conditions. The reports from Oxera also reveal inadequate treatment of evidence on the part of Ofgem.

Finally, Ofgem's position on distributions and return of equity remains significantly under-developed and ambiguous. A working assumption of 3% return on equity is not supported by market evidence. The 55% trigger for "special dividends" has no evidential basis. Ofgem's "options under consideration" were not explained.

There are inconsistencies in how Ofgem has assessed the Allowed cost of debt. Given the Judicial Review hearing, which is scheduled to take place in early October 2025, we have provided a legal notice at the outset of our responses to Ofgem's questions. As such, we do not respond in detail to the questions on cost of debt and restrict our responses to other questions, where appropriate. However, within Ofgem's approach to cost of debt, we highlight some inconsistencies regarding point in time assessment of cost of debt. Ofgem also mischaracterises our approach in stating that it would not give rise to out/under performance on cost of debt. This is a fundamental mistake of fact.

Excess gearing and excess interest for tax clawback purposes

The issue

Ofgem has not accepted WWU's proposed resolution to this issue which effectively creates significant revenue loss potential unrelated to movements in gearing.

Suggested resolution

We ask Ofgem to consider carefully our response on the above matter. We present a revised proposal in this submission in our response to FQ22.

Why Ofgem should adopt the suggested resolution

This issue continues to present a significant asymmetric downside risk to WWU's financial profile, harming our financeability.

Balancing risk and return

The issue

WWU is unable to assess how Ofgem reached its conclusions regarding risk and return in the DDs.

Suggested resolution

We ask Ofgem to provide a more detailed and evidence-based rationale in its Final Determinations on overall risk and return to allow us to assess WWU's risk and return.

Why Ofgem should adopt the suggested resolution

A precondition of balancing overall risk and return is that Ofgem must consider the evidence submitted, i.e. its assessment should be transparent, consistent and balanced as a precondition to giving proper regard to its duties.

Other areas of concern

While Totex and financing are our most significant challenges; there are several additional areas of concern which we flag for Ofgem's attention.

Caps and floors on Tier 1 mains and services replacement

The issue

The cap acts as an unnecessary obstacle to closing out the iron mains programme in an efficient way with the programme required by the HSE to complete during 2032. It has the impact of potentially paring back resource and work towards the end of RIIO-GD3 to avoid exceeding caps and then growing resource or suffering increased costs to retain resources for a one-year programme in the first year of RIIO-GD4, when there will likely be high workloads, demanding increased labour, in other utilities, notably water and electricity.

The delivery of the 30-year mains replacement programme is also significantly lower risk if replacement can be accelerated into RIIO-GD3, with a glidepath to conclusion as opposed to a cliff edge.

We have no issue with Ofgem maintaining an enforceable floor on the amount of work required to be delivered and, in this way, holding companies to account for what they are obliged to deliver.

Suggested resolution

Simply removing the caps for mains and services would enable efficient acceleration of a programme, where appropriate, making best use of resource and de-risking cost increases.

Why Ofgem should adopt the suggested resolution

This resolution benefits consumers through reduced gas leaks and methane emissions as a result of replacing iron pipes mandated to be replaced by the HSE slightly earlier.

There is also very limited impact on consumer bills, and this option could in fact avoid an increase. Taking into account the slow money impact of Repex, and the Accelerated Depreciation end date of 2050 for new assets, accelerating 100km forward from the start of RIIO-GD4 into RIIO-GD3 would bring forward less than 70p per consumer per year. This does not account for the cost benefits of doing so.

Conversely, a 20% price increase in the final years of the programme due to GDNs and other utilities competing for resource would have the impact of an increase of £1 per consumer per year, with none of the benefits of acceleration.

Business Plan Incentive

The issue

We are concerned that there may be commitments made by companies in their Business Plans which result in a benefit to their business plan incentive score, but which are actually not delivered across the RIIO-GD3 control period. This would result in a positive benefit at the time the FDs are set, but with no ability to true up for the actual position across the control period. This would unfairly penalise those who put forward challenging but achievable commitments and deliver to that level or above, whilst rewarding those who over promise and under deliver.

Suggested resolution

The issue could be easily resolved by revisiting the BPI at the end of the control as part of the close out mechanism to correct the upfront BPI for the promises actually delivered across the control, including those not in original Business Plans.

Why Ofgem should adopt the suggested resolution

This helps prevent an aspect of gaming within the control and more fairly treats those companies who have appropriately delivered across the control period.

Use of 11-year payback periods in Cost Benefit Analysis

The issue

There is very credible evidence that the gas network will be largely in use in its current form in the 2040s and into the 2050s and beyond. Government has come out and supported this. For assets to be end of useful life and decommissioned, every domestic and non-domestic consumer in those areas would need to be disconnected from the gas network and moved to alternative fuels.

Using an 11-year payback (a purely mechanical five-year shortening of the 16-year payback used in RIIO-GD2) to assess investment in gas assets suggests this will happen by 2037. The outcome would result in a significant shift to higher-cost maintenance Opex solutions in preference to Capex, with an overall increased whole-life cost for consumers. This will also not be acceptable to the HSE as an asset management plan.

Suggested resolution

We would suggest 2050 is a more pragmatic and balanced cut-off period for Cost-Benefit Analysis (CBA) until there is better clarity from Government on the future of the gas network. A date can be revisited for RIIO-GD4 when we expect there to be further evidence that the gas network will continue to be required.

Why Ofgem should adopt the suggested resolution

Getting this wrong has significant financial implications for consumers from early in RIIO-GD3 and into the future. While Ofgem is sensibly building protections for future consumers into the price control through accelerated RAV depreciation, using an 11-year assessment period drives Operational Opex solutions which, unlike Capex, are not recovered over a long period of time but rather in the year, increasing costs for today's consumers and tomorrow's. This will adversely impact those consumers remaining on the gas network in future, who Ofgem suggest will have the least resource to absorb these bill increases.

This will also have the impact of creating future bow waves in capex investment as assets go beyond end of life and there is no option to continue to operate.

Conclusion

In summary, our response to the RIIO-GD3 Draft Determinations sets out a series of well-evidenced and constructive proposals aimed at ensuring a fair, consistent and sustainable regulatory outcome. We have demonstrated that the current allowances, if left unchanged, will not be adequate to fund the work needed to continue maintaining a safe and reliable network for our consumers.

We ask Ofgem to take full account of the evidence presented, both in this submission and through our ongoing engagement, to address the material concerns raised. By revisiting the key areas of Totex and financing, Ofgem can deliver a Final Determination that supports long-term investment, maintains consumer value, and upholds regulatory integrity.

We remain committed to working collaboratively with Ofgem in the lead up to final determinations to resolve these issues, ensuring RIIO-GD3 delivers the outcomes requested by our stakeholders and maintains the sustainability of our network.

RIIO-GD3 Draft Determinations Overview Document Response

Introduction

Summary

- Throughout the RIIO-GD3 planning period we worked closely with our key stakeholders to make sure we captured their interests while developing our RIIO-GD3 commitments. To further justify these commitments, we tested them with both domestic and business consumers and confirmed that over 90% of all participants found them to be acceptable.

- We maintained continuity by sustaining our ISG throughout RIIO-GD2 and into RIIO-GD3, recognising its value. We will focus the group on Stakeholder Engagement, Customer Service, Strategy, and Innovation to best serve consumer interests.

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

We welcome Ofgem's recognition that our RIIO-GD3 Business Plan has been robustly tested with stakeholders, and we particularly value the critical role our Independent Stakeholder Group (ISG) played in that process. Unlike others, we recognised the value in maintaining membership continuity and sustained our ISG throughout RIIO-GD2 and have already implemented the same for RIIO-GD3. We are pleased that Ofgem share the view that ISGs have a vital and ongoing role in the price control framework. We consider the following perspectives best reflect the interests of our stakeholders and consumers on the ISG's enduring function:

- **Customer Service**: We encourage Ofgem to make comparative performance data across GDNs accessible to ISGs wherever possible. This transparency enables ISGs to benchmark actual performance against the expectations set out in each network's Business Plan, ensuring that companies are held accountable for the commitments each of us has made and the efficiencies each of us has forecasted.
- **Strategy and Innovation:** Our ISG has previously stated that in the path to net zero lies a critical opportunity to improve the lives of households as we decarbonise and upgrade the energy efficiency of the UK's existing housing stock. Given the uncertainty surrounding the future application of the gas network in this environment, we consider strategy and innovation need to be a key focus area for the ISG.
- **Stakeholder Engagement:** As outlined in our Business Plan submission, stakeholder and consumer engagement is central to ensuring our decisions reflect the needs and priorities of the communities we serve. The ISG must maintain strong expertise in designing and delivering engagement programmes. This capability is essential for critically evaluating who we engage with, how we engage, and the topics we address - ensuring our decisions consistently align with the best interests of consumers and other stakeholders.

Outputs and incentives

Summary

- We support Ofgem's overall approach to environmental, climate, workforce, and supply chain resilience, provided that uncertain costs are appropriately funded, and we advocate for flexibility, proactive climate investment, and continued collaboration to address strategic challenges.
- We agree with the concept of a mechanistic Price Control Deliverable (PCD) for Zero Emission Vehicles (ZEVs), provided it reflects the actual costs we face—including vehicle price differences, infrastructure needs, and the potential rollout of hydrogen or biogas vehicles.
- We support the long-term risk approach to Baseline Network Risk Outputs (BNROs) and welcome Ofgem's commitment to resolving data alignment issues and engagement with the networks, but we seek greater transparency on assumptions and caution against expanding NARM coverage.

Cross-sectoral outputs

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

We support the proposal to maintain flexibility in how the networks structure their Annual Environmental Reports (AER). We recognise a predetermined and mandatory Key Performance Indicators (KPIs) table agreed by relevant parties at the start of the control period will give stakeholders a quick and easy way to monitor performance. However, we re-affirm our view that an accompanying narrative explanation is in the best interests of all stakeholders.

The narrative content is important because environmental indicators are influenced by a variety of variables and factors which require context, such as each network's business model. For example, we have an insourced mains replacement model, which means the associated emissions are classified as Scope 1 emissions. This is different from networks that outsource this work, where the same emissions would be classified as Scope 3. Without context provided by the narrative, our Scope 1 and 2 emissions would appear higher in comparison, even if the overall environmental outcome is the same. Therefore, any movement in a single KPI must be read in the context of the overall environmental performance and business operations. We agree with other networks that background variation driving the KPIs can otherwise usually be mitigated by normalisation of the data. This would enable stakeholders to make a fairer comparison of performance between the networks, though factors such as business model would still need to be understood and considered.

We note Ofgem's intention to share draft AER guidance with companies. This should be a formal consultation and mandatory KPIs should be agreed prior to the beginning of RIIO-GD3., so that they can be gathered from the start of the period.

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

We agree with the principle of a mechanistic Price Control Deliverable (PCD) for Zero Emission Vehicles (ZEV) and associated infrastructure costs, subject to some key criteria in its design:

Funding ZEV cost differential

- The PCD should ensure that ZEV chosen must be fit for purpose and not adversely impact operational efficiency.
- The PCD should fund the efficient cost differential between diesel and equivalent ZEV, based on the efficient price point available to the network at the time of purchase/leasing, after deduction of any applicable Plug-In Van Grant. Our concern here is that smaller networks cannot achieve the same levels of discount as those with much larger vehicle fleets. The common methodology is therefore correct, but for fairness, we require Ofgem to consider bespoke funding per network for these vehicles.
- Cost differential will change over time, including the availability of grants – e.g. the Plug-In Van Grant scheme, which currently extends only to 2027. It is uncertain whether this will continue - and if so at what level/s. As zero emission van sales are already failing to meet the mandated annual targets, it's conceivable that this scheme may be enhanced.
- The roll-out of hydrogen as a vehicle fuel can be expected to continue during RIIO-GD3, though costs associated with the adoption of hydrogen ZEVs are not yet known. A mechanistic PCD should therefore allow for GDNs to introduce such vehicles as and when they become available, particularly where they are suitable for a duty cycle which a Battery Electric Vehicle (BEV) is not. Until that point, innovation and Net Zero development funding is the appropriate route for such technologies, as we explain further below.

Funding associated infrastructure

- We agree that the PCD to be effective there will need to be appropriate allowance for associated infrastructure as well as vehicles
- The PCD should therefore also fund charging infrastructure to support the rollout of these vehicles, for example, both depot and home charging, where required, a prerequisite for these vehicles.
- The PCD should fund efficient additional costs associated with the use of public rapid charging facilities versus those that we own and operate, where this is operationally necessary.

Costs relating to providing or expanding charging facilities may include electricity network reinforcement and additional land costs. These costs are highly site specific and therefore uncertain. While they could be covered through a form of PCD, it may be more suitable to expand the NZARD UIOLI allowance to meet these investments as they occur. We estimate that up to £5.6m could be required to facilitate such reinforcement at WWU sites in RIIO-GD3. To be clear we have *not* currently included this cost in our response on NZARD UIOLI allowances in the WWU annex.

We note that the Operational Transport Emissions Reduction PCD acknowledges uncertainty for 'larger van types... and HGVs'; and on this basis, it is appropriate to use Net Zero and Re-opener Development Use-It-or-Lose-It allowance (NZARD UIOLI) and Network Innovation Fund (NIA) to explore alternatives which could reduce emissions from these sources in RIIO-3 and beyond. We have provided further information about our plans for these allowances in the relevant sections of this consultation response. We also note the government's position as set out in the recent hydrogen update to the market, 'Hydrogen update to the market: July 2025':

"Whilst the Government is technology neutral on zero-emission options, it is expected that battery electric will remain the dominant technology for cars, vans and buses. Hydrogen and its derivatives will have an important, complementary role to play in decarbonising heavier transport applications where the potential for electrification is more limited or uncertain and the availability of biofuels is constrained. This is particularly the case for uses with longer ranges, rapid refuelling requirements or greater energy density needs."

We have therefore included further evidence in response to WWUQ6 and WWUQ9 on appropriate funding for alternative ZEV/Ultra Low Emission Vehicles (ULEV) solutions to support these areas of our fleet. Together with our proposals for the design of the Operational Transport PCD this would provide appropriate support for the full range of zero emission vehicles alongside technologies that are not zero emission, but which nevertheless deliver significant decarbonisation benefit. The latter could include adoption of biogas for HGVs, which currently form a minority of the GDN fleet mix, but where each vehicle that transitions could deliver a disproportionately large carbon reduction.

As per Ofgem's request, we have compiled detailed data for all vehicle types, volumes and costs expected to be purchased in RIIO-GD3 in a separate Excel template, prescribed by Ofgem, which is found as Appendix OVQ3A – Operational Transport Data Request.

We note, as per the comments in the document, that we will consider the purchasing of a BEV for any vehicle category if suitable infrastructure and a vehicle that meets all the features of the stated diesel variant becomes available, and the PCD is workable in line with the suggestions we have made above. Any BEV must be fit for purpose and represent value for money for the gas consumer. We would also welcome the opportunity to purchase alternative fuel, low-carbon vehicles through the PCD and/or facilitated by NZARD UIOLI or reopener funding, such as ULEV, Hydrogen, and Biomethane vehicles, subject to availability and suitability.

Ofgem should note that our updated Business Carbon Footprint (BCF) forecast for the end of RIIO-GD3 assumes a largely diesel fleet as per the Operational Transport Data Request spreadsheet. This is an estimate that we would want to revise through more detailed modelling following the Final Determination. If the final determination PCD is workable and additional zero or low emission vehicles are able to be efficiently purchased and integrated into our fleet plans, our total BCF (scope 1 / scope 2 excluding shrinkage) could be much lower. This demonstrates the importance of the design of the PCD and funding for alternative lower carbon vehicles.

Ofgem included further data requests in their Draft Determinations which can be found in Appendix OVQ3B - Vehicle PCD Justification Requests

- Vehicle Categorisation
- Purchasing and Leasing Volumes
- Unit Costs and Comparisons
- Justification of Costs
- Operational Viability
- Flexibility and Output Definition
- GDN EV Charging Strategy

Conclusion

We agree with the principle of a mechanistic PCD for ZEVs, but only if it's designed to be flexible and addresses the practical challenges of transitioning our fleet. We believe that the PCD should fund the cost difference between ZEV and diesel vehicles, including charging infrastructure (though additional funding via NZARD UIOLI should also be considered for this), and must allow for bespoke funding due to varying network sizes and discounts. We've compiled a detailed Excel template with vehicle data, costs, and volumes as requested by Ofgem. This data highlights the operational viability issues with current ZEVs, such as significantly reduced payload and range, particularly for our heavier, long-distance, and on-board power-equipped vehicles. We also emphasise that while Ofgem assumes a BEV-only future, hydrogen vehicles and other decarbonization technologies, like biogas for HGVs, are crucial for our fleet and should also be supported by the PCD. The limitations of the ZEV mandate and related government derogations currently pose significant operational risks for our business, and we should not be forced into purchasing a fleet that does not allow us to run an efficient and customer-focused workforce.

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

We are comfortable using long term risk benefit instead of a single year risk to measure the Baseline Network Risk Outputs (BNRO). However, in order for this to be appropriately calibrated; we would need more detail around the assumptions made when aligning Network Asset Risk Metric (NARM) Business Plan Data Templates (BPDTs) with the volume data submitted in Business Plans and Ofgem's proposed allowed volumes. Currently we have no visibility of the assumptions used by Ofgem, which raises further questions. For example, the proposed allowed volumes for governors are highly ambiguous. i.e. Appendix 1 in Ofgem's RIIO-GD3 WWU Annex states that interventions have been changed to refurbishment interventions; but in section 5.11 it is stated that only costs associated with reactive workloads would be allowed. Additionally, the BNRO for governors has not been adjusted to reflect either of these.

We acknowledge and welcome Ofgem's stated intention to work through any data alignment issues with WWU through bilateral meetings to establish definitive BNROs at an asset category level ahead of Final Determinations.

OVQ5. Do you agree with our proposed approaches to calculating the funding adjustments and to the application of penalties?

We support Ofgem's view that delivery of the network-level BNRO within the deadband stated in the NARM Handbook v4 Section E Table 3 (+- 5%) will automatically be considered fully justified. We also support the proposed approach that the licensee will identify delivery elements that, in its view, can be considered as Clearly Identifiable Over-Delivery and Clearly Identifiable Under-Delivery (CIOD/CIUD), as stated in the NARM Handbook v4 section 5.11. In addition, that delivery within the deadband will be considered to be automatically 100% justified and can therefore proceed directly to the closeout report stage i.e. removing the requirement to go through the CIOD/CIUD process.

However, we have concerns about the application of the Clearly Identifiable Over/Under delivery mechanism for delivery outside the deadband and how that will function in RIIO-GD3. Our interpretation of the guidance in the NARM Handbook is that if delivery of the BNRO falls outside of the deadband, then all delivery elements will go through the CIOD/CIUD process as the Unit Cost of Risk (UCRs) at asset category level would all fall outside the network level UCR deadband by default. Chapter 8 of the NARM Handbook

sets out the reporting requirements for the licensee to justify over/under delivery – therefore requirements have the potential to require a larger volume of data analysis and reporting than the original Business Plan submission.

We welcome the opportunity to work with Ofgem to further refine and simplify these requirements to provide Ofgem with sufficient information to carry out its assessments while avoiding placing excessive and burdensome requirements on the licensees. We consider that the volume of data licensees would be required to submit at this stage should be proportionate to the variance from the BNRO target at network level.

Our preferred mechanism for assessing whether workloads are justified or unjustified, would be to assess BNRO targets at an asset level if the network level BNRO target is missed. Here, if the asset level BNRO falls within 5% of the target, that particular asset group is considered to be automatically justified. This would have the effect of reducing the volume of delivery elements that would fall into the CIOD/CIUD process, in turn reducing the workload at this stage for both the licensees and Ofgem. It would enable the focus to shift to groups falling outside the deadband; allowing meaningful discussions about allowance adjustments to be ringfenced to those asset groups where it is most appropriate - and ultimately, benefitting the consumer.

In the cross-sector NARM Working Group 16 which took place on 11/08/25, we note that companies presented different possible approaches to the NARM Funding Adjustment and Penalty Mechanism. These were based on shared concerns across different sectors about the use of UCR as the basis for making adjustments. We will continue to engage in these ongoing discussions to reach an optimal outcome for all stakeholders.

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

We have concerns about expanding NARM coverage to additional asset groups. The current level of Total Expenditure (Totex) covered by NARM is appropriate, covering 90%+ of asset investment outside of Tier 1 Repex. The NARM mechanism and reporting requirements would benefit from a period of stability, without additional modelling being required. This will allow us to close out RIIO-GD1, agree how we close out RIIO-GD2 and develop rules for how we monitor and measure RIIO-GD3 in a way that allows Ofgem to hold Networks to account and Networks to efficiently manage asset risk and changing requirements from stakeholders.

However, in general we agree with the proposed approaches to improving the existing NARM framework; by producing a Common Methodology, an Engineering Guidance Document and Information Gathering Plans for relevant data. We look forward to continuing to work with Ofgem to finalise the requirements for each of these documents.

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

Due to the sensitivities in this area, our detailed feedback on both physical security and cyber security determinations can be found in Cyber Resilience RIIO-GD3 Draft Decision Feedback.

Other policy areas

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

We welcome Ofgem's commitment to develop guidance for the networks and look forward to contributing to this. However, it should be subject to formal consultation: climate resilience is a dynamic topic with new data emerging and multiple stakeholder perspectives. As reported on 30 June 2025 by Hayley Fowler, Professor of Climate Change Impacts at Newcastle University (to the Infrastructure Operators Adaptation Forum), the frequency and intensity of extreme weather events is outpacing climate change models. It is reasonable to assume that at least one High Impact, Low Probability (HILP) event will happen in each network during the price control.

We therefore refer you to our response to OVQ17 on the design of the resilience re-opener. We need to ensure that the mechanism allows for proactive investment to mitigate the risk of climate impacts on assets; both in response to new or revised climate data, and updated assessment of risks as they emerge. This is consistent with our Climate Resilience Strategy commitment to better understand the precise vulnerabilities of assets and our operations. Our commitment is also to invest in resilience according to risk assessments based on the most up to date climate change data; and observed local, sub-regional changes to, for example - ground stability, fire risk, sea level rise, and changes in river profile or meander. This approach provides a lower cost to the consumer and a lower risk to security of supply; compared to allowing investment only after a climate impact has been realised or is imminent.

In regard to our licence, we note the wording of section 2.20.2b of the diversion re-opener special condition, "…. costs of rectifying or mitigating damage to Network Assets due to adverse environmental factors beyond the control of the licensee." However, we do not want to rely on this alone and require a clear design to the resilience re-opener in addition to the 3.20 Diversions and Loss of Development Claims policy Re-opener.

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

Yes, we welcome Ofgem's confirmation that our Workforce Resilience Strategy has met the requirements. As detailed in our strategy, we will continue to collaborate with others to address outstanding areas of significant challenge.

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

Yes, we agree with the views shared by Ofgem on Supply Chain Resilience Strategies.

Business Plan Incentive

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?

An equal split of the weightings of the scorecard seems appropriate. That said, our reading of the draft determinations assessment of our Business Plan appears to have duplicated negatives across criteria, resulting in double penalties. For example, the 0.975 bps penalty we received under the Business Plan Incentive (BPI) for a perceived failure to set stretching targets is a duplication of the 9% reduction in our innovation allowance. When you consider that the NIA quality assessment reduces allowances for the exact same issue, insufficient justification and a lack of ambition in proposed innovation projects, it is clear businesses are being penalised twice for the same shortfalls and is neither a fair nor proportionate approach. It undermines the purpose of the distinct incentive mechanisms and creates an unjustifiable double penalty for WWU. We urge Ofgem to reconsider this approach.

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

We do not agree with the weightings applied to each outcome per sector in Stage C. We consider that the current approach is lacking a clear, consistent logic for applying different weightings across the sectors during this period. The role of gas networks in the transition to net zero is critical, despite long-term uncertainties regarding the future of gas. Our infrastructure is essential for:

- Supporting the decarbonisation of power generation
- Maximising the use of biomethane
- Reducing methane emissions

Given these key contributions, we recommend that the 40% weighting for Electricity Transmission (ET) should be equally applied. The 40% for Secure and Resilient Supplies is appropriate and aligns with government priorities and the consistently high importance placed on this issue by our stakeholders.

Regarding High Quality of Service, we note that NESO forecasts significant reductions in new connections and that the removal of the DCLA will expedite this trend. Additionally, disconnections remain at very low levels with no signs of increasing in the short term. As a result, approximately 1/3rd of our customer performance metrics could potentially become irrelevant during the RIIO-GD3 period. We propose that the weighting for High Quality of Service be matched to the ET sector, reflecting these operational shifts

In summary, while there are inherent differences between sectors, the key focus areas for the short to medium term are consistent. We consider that a common set of weightings across sectors would better reflect this alignment, as shown in our proposal as follows:

Table 1 BPI Stage C weightings

	Ofgem Proposal			WWU Proposal		
RIIO-3 BPI Stage C Business Plan Commitment 'Outcome'	ET weights	GT weights	GD weights	ET weights	GT weights	GD weights
Infrastructure fit for a low-cost transition to net zero	40%	20%	30%	40%	40%	40%
Secure and resilient supplies	40%	50%	40%	40%	40%	40%
High quality of service for regulated firms	20%	30%	30%	20%	20%	20%

Managing uncertainty

Summary

- We support the fundamental design of the NZARD UIOLI and NZASP reopener mechanisms but current funding levels and scope are insufficient to meet government policy and stakeholder expectations. This is particularly the case in relation to regional energy planning and NESO engagement; reducing emissions; and facilitating green gases including biomethane and hydrogen blending. Ofgem should reconsider WWU's allowance levels from the Draft Determinations based on this response.
- We agree with maintaining the RIIO-GD2 framework for RPEs but disagree with the proposed materials indices and the exclusion of plant and equipment from materiality. We've requested more transparency from Ofgem and proposed a more representative cost mix based on our operational model.

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

We broadly agree with the default threshold and its level; we suggest that provision should be made for cases where individual reopener thresholds have not been met but in aggregate exceed the materiality threshold

Cross-sectoral uncertainty mechanisms

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

Yes, we consider that these changes will increase the likelihood of this process being used.

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

We agree with the overall design of NZARD UIOLI but are concerned that the scope and funding levels proposed are not sufficient to deliver on the requirements of government policy and our stakeholders. This includes:

1. Preparing the business for future changes and policy decisions under a range of scenarios (see WWUQ4).
2. Facilitating green gasses: biomethane facilitation not covered under new biomethane UIOLI allowance, hydrogen blending implementation and/or providing further evidence for policy decisions, and wider activity to OVQ15 t gasses (see WWUQ5). For example, work which follows from the networks' lending implementation plan with wider learnings from government policy on blending at Transmission and Distribution (T/D) levels, and Real Time Settlement Methodology (RTSM)outcomes.
3. Reducing emissions towards net zero (transport and network) – in addition to activity under the Environmental Action Plan and Operational Transport Emissions Reduction PCD, and including Advanced Leakage Detection (see WWUQ6).
4. Supporting the development of Regional Energy System Plans, and other NESO and Local Area Energy Planning activities (see WWUQ7).
5. Across all areas, preparing for applications under the Net Zero and Small Projects reopener (NZASP), depending on developments during RIIO-GD3.

As we set out in our Business Plan, stakeholders generally support WWU playing a role in these areas. We note that since Draft Determinations, Sustainability First has specifically called for Ofgem to reconsider NZARD UIOLI allowances especially in relation to reducing emissions and supporting energy system planning.[12]

Further detail on the required scope, our plans for NZARD UIOLI, and the allowances required for this activity are provided in our responses to draft determination questions WWUQ4-7, for which a high-level summary table is provided below totalling a requested £20.56 of additional NZARD UIOLI funding, noting that no individual project in each area exceeds the £2m materiality threshold:

Table 2 WWU revised NZARD UIOLI proposal Summary

Area - high-level category with various projects in each area	Total Category Cost Estimate (£m) - no one project area exceeds £2m materiality threshold
WWUQ4 - Prepare the business for a net zero future	8.09
WWUQ5 - Facilitate green gases	2.90
WWUQ6 – Reducing emissions towards net zero (transport and network)	4.90
WWUQ7 - Improve energy system planning	4.67
Total WWU revised NZARD UIOLI proposal	20.56

[12] Sustainability-First-DD-response-GD3-GT3-Final-190825.pdf

Table 3 WWU revised NZARD UIOLI proposal Detail

Reference to detailed response	Project category	Cost estimate (£m)
WWUQ4 - Prepare the business for a net zero future	Settlement and data	1.59
	Robust engineering process, procedures and contingency planning in preparation for future changes	1.30
	Transformation capabilities and a project management office	1.00
	Transformation capabilities internal and external comms	0.80
	Preparing asset management systems and data for future changes	0.70
	Transformation capabilities and network planning	0.70
	Developing company specific regulatory and finance approaches	0.50
	Safety under a range of future gas industry scenarios	0.50
	Asset management and network infrastructure	0.40
	Workforce readiness and training	0.40
	Supply chains and partnerships	0.20
WWUQ4 Total		8.09
WWUQ5 - Facilitate green gases	Understanding Practical Network Transition Activities	1.00
	Decarbonisation demonstrator for network users	1.00
	Follow on work from completion of the Blending Implementation Plan to undertake WWU specific analysis to prepare and provide evidence for a reopener.	0.90
WWU05 Total		2.90
WWUQ6 – Reducing emissions towards net zero (transport and network)	Initial preparatory work for rollout through NZASP re-opener for advanced leak detection to lower network emissions	1.90
	Progress lower carbon HGV fleet	1.50
	Decarbonising heavier van fleet with requirements for towing and onboard power.	1.50
WWU06 Total		4.90
WWUQ7 - Improve energy system planning	Responding to LAEP actions and supporting other developments which may inform RESPs.	1.40
	Support NESO RESP including creation calculations and post review process	1.32
	Long term development of skills related to energy system transition, to enable future changes	1.00
	Support NESO strategic planning activities including CSNP and SSEP engagement	0.95
WWUQ7 Total		4.67
Total WWU revised NZARD UIOLI proposal		20.56

This proposal does not include the additional proposal to use NZARD UIOLI to facilitate additional infrastructure requirements related to the Operational Transport PCD, for example around ZEV recharging facilities. See our response to OVQ3 for this.

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

Yes, we agree with the proposed design of the NZASP reopener, subject to sufficient funding being provided via the NZARD UIOLI mechanism (see draft determination question response OVQ15 and WWUQ4-7.) for both lower materiality activity and preparing reopener applications). Re-opener mechanisms have proved to be a slow process in RIIO-GD2, with a long window between engagement to trigger the mechanism and the final decision-making process, which based on our experience with HyLine Cymru was around 12 months. We would welcome a review of this process given its criticality to RIIO-GD3 funding for potentially important programmes of work such as facilitating hydrogen blending which leads on from the blending implementation plan and wider learnings from government policy on blending at Transmission and Distribution (T/D) levels, and includes Real Time Settlement Methodology (RTSM) outcomes.

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

Our view is the requirement for the re-opener is clear and acknowledged but the design of the re-opener is too narrow to support the uncertainties requiring addressing.

The licence definition for Resilience Activities in the GD3 licence is

Resilience Activity	means any activity undertaken by the licensee in response to: (1) Changes in national government policy; (1) Recommendations made by the ISOP and endorsed by national government; (2) Actions arising from the National Risk Register.

This omits supply chain, workforce and climate resilience.

We would suggest the re-opener is expanded to include

- Activities associated with physical security (specifically CNI sites and associated personnel and systems)
- changes to engineering and resilience standards
- changes to emergency measures or protocol

Any reopener submission should be subject to a high level of scrutiny, but omitting these areas would not reflect the resilience uncertainties Networks face.

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

We agree with Ofgem in relation to the following:

- Ofgem's decision to maintain a similar framework in RIIO-GD3 as that in RIIO-GD2, however there are some areas which require further consideration ahead of Final Determinations (FDs).
- The scope of the Real Price Effects (RPEs), recognising the weighting towards labour and materials.
- That the current forecasting of input price indices in upfront allowances is working effectively - with an annual "true-up" - and we see no reason to change this.
- On index selection methodology, we agree that lagged indicators could add complexity and inconsistency into the mechanism. We agree this should not be adopted into the RIIO-GD3 methodology.

With specific regard to the indexation being proposed:

- We agree that the existing labour indices should continue from RIIO-GD2 into RIIO-GD3
- On materials, we were pleased that Ofgem has listened to GDN representation and amended the materials indexation with the aim to better represent the underlying costs of GDNs. However, in the proposed RPE price input indices[13] there is a move that includes a 10% weighting shift to "timber" and 10% to "aluminium." This is not aligned or representative of GDNs cost base. We would propose that this weighting is reallocated accordingly.

[13] RIIO-3 Draft Determinations Overview Document, p75-p76, 6.47, table 11

Cost of service

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

An OE target of 1% p.a.

We do not agree with Ofgem's assessment or approach to ongoing efficiency (OE).

At DDs Ofgem has set an OE target of 1.0% p.a., twice that proposed by GDNs/NGT of 0.5% p.a. Our BP proposal of 0.5% p.a. is stretching and ambitious given the current economic climate and future productivity growth forecasts.[14]

Ofgem commissioned Grant Thornton (GTh) to provide a report assessing the company submissions on OE and conducting analysis to land on a 'narrow' OE range of 0.1–1.3%. Ofgem considers NGET's proposal of 0.7% p.a. to better reflect the lower-bound of a proposed OE target range rather than GTh's 0.1%, and then ultimately takes 1.0% p.a. to be the midpoint of the 0.7–1.3% range. The approach taken suggests Ofgem were 'aiming' for 1.0%, rather than considering all the evidence.

GDNs/NGT commissioned Economic Insight (EI) to assess the robustness of Ofgem's DD 1% p.a. challenge and the evidence it relies on. This report, which builds on the evidence and EI report submitted with our BP, demonstrates that Ofgem's 1% p.a. assertion is unsupportable. It finds that Ofgem has made three errors in how it has chosen its proposed OE target, arising from how it comes to its 'plausible range' of 0.7%-1.3% and how it subsequently chooses its 1.0% point estimate from the range. The EI report sets out three key areas that are considered errors on Ofgem's part in arriving at its conclusion:

1. In setting its final OE target, Ofgem has erroneously relied on precedent of outcomes at previous regulatory decisions, rather than precedent of methods previously applied to determine those outcomes.

2. In calculating its OE range, Ofgem has erroneously: (i) relied on incomplete business cycles; and (ii) removed three years from its analysis (2008, 2009, 2020), incorrectly referring to them as outliers.

3. Ofgem has placed disproportionate weight on unsubstantiated arguments to select a target from the upper end of the range, whilst failing to consider countervailing reasons to study the lower end of the range.

In addition to the three errors highlighted by EI, we consider that there are three additional key points of concern with Ofgem and GTh's approach:

- GTh uses a simple average of its seven comparator sectors to determine its final range, which means a 14.3% weighting has been placed on each. In contrast, much in the same way Ofgem constructs its RPE indices, Oxera constructed a weighted productivity estimate in which a detailed activity mapping of our cost base was carried out to accurately assign weights to the comparator sectors most aligned with our operations.[15] For example, the bespoke activity mapping suggested a weighting of 49.2% on 'Construction' and 0.7% on 'Financial and insurance activities', while GTh's approach applies the 14.3% weighting to both. Ofgem's own RPE indices also imply a significantly higher

[14] Economic Insight (2024), 'Further Evidence on OE for Gas Networks at RIIO-3', pp. 6–8.
[15] Wales & West Utilities (2024), 'Cost Assessment and Benchmarking Approach', pp. 37–38.

weighting, more than 30%, to the construction industry.[16] Given this evidence and the inconsistency with Ofgem's RPE indices construction, in developing its OE challenge Ofgem should consider weighting the sectors more accurately based on the activities and expenditures that the GD sector can expect over RIIO-3.

i. Ofgem's proposal is to apply the 1% OE target to baseline TOTEX, which assumes that all TOTEX spend over GD3 is for business-as-usual (BAU) activities, which is not the case. In our Business Plan we specified an OE challenge of 0.6% would be appropriate to be applied to c.80% of our TOTEX plan (or 0.5% across TOTEX, aligned to other GDNs). We maintain that applying the OE challenge to the entire TOTEX plan is overly stretching.

- Ofgem states that the 1% value gives 'appropriate weight' to 'the use of Value Added (VA)',[17] despite GTh itself presenting its 'narrow range' based on Gross Output (GO). Further, EI states that 'no weight should be placed on the VA measure'.[18] As such, it is wrong for Ofgem to give weight to the VA TFP approach.

We ask that Ofgem re-consider its position ahead of Final Determination and set an OE challenge which is more appropriate given the associated evidence and is applied to actual company performance data (see response to GDQ43).

<u>OE challenge starting in 24/25</u>

The current methodology presented at DDs sets the first year of OE as 24/25. On reaching the first year of RIIO-GD3, this has the effect of an opening efficiency challenge of 2%, which then carries through each year of the control (i.e. the first year of the control has a 3% efficiency challenge, second year has a 4% efficiency challenge). Ofgem employ this methodology to recognise that OE gains can be made between BP submission and the start of the control that otherwise are not captured in submissions.

We consider this to be wrong given GDNs submitted BPs in December 2024. Thus, 8 months of OE challenge is already embedded in GDNs GD3 BP submissions. To then apply this twice would duplicate this challenge which would then be an enduring challenge through all 5 years.

[16] In Ofgem's construction of the RPE index, of all the GDN costs mapped to price indices, c.32% are explicitly or implicitly related to the construction sector, while of the labour component of the RPE index, which comprises 60.1% of the total index, Ofgem assigns a 33% weighting to the AWE: Construction Index.
[17] Ofgem (2025), 'RIIO-3 Draft Determinations Overview Documents', p. 94.
[18] Appendix OVQ19A- Economic Insight 'Independent Review of Ofgem's Draft Determination Approach to Ongoing Efficiency', p. 41.

Innovation

Summary

- We strongly disagree with Ofgem's proposed NIA funding levels and criteria, which we consider to be too narrow and insufficient to support the innovation needed to facilitate progress towards Net Zero. We've called for broader eligibility—particularly for biomethane, blended gas, and regional planning—and for mechanisms to expand funding in response to policy changes. We also support enhanced advisory services for innovators but stress that excluding future-of-gas projects risks undermining low-cost, low-disruption decarbonisation.
- We welcome the £500m SIF allocation and support the introduction of a deployment fund and a programmatic approach. However, we've asked for more transparency, dedicated network resources, and inclusive governance to ensure gas networks are not excluded. We also support retaining the Discovery phase and want clearer, more flexible contribution rates and eligibility criteria.
- We support improved oversight of innovation projects but urge Ofgem to build on existing RIIO-GD2 practices. Without adding unnecessary burden, we advocate for consistent, transparent reporting standards. We look forward to working with Ofgem on the development of governance in this area.

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

No. The proposed NIA allowance is too low, and the funding criteria are too narrow. The funding level should be increased, removing reductions applied to potential projects in some key areas, which we have also included in our response to WWUQ9.

We note that while Ofgem has taken a policy decision on not providing hydrogen funding in RIIO-GD3, our extensive stakeholder engagement relating to innovation, provided in our submission disagrees with this position. Our engagement has informed us that consumers show a higher willingness to accept bill increases when they are directly associated with innovation initiatives, particularly those that promise long-term benefits which future-proof the UK's energy network.

For gas networks such as ours, we expect this to mean NIA activity in areas including, but not limited to:

- Supporting NESO innovation activities with strategic and regional planning, building on examples from RIIO-GD2 innovation.
- Green gas connection innovation, supporting areas such as capacity and storage, responding to growth in biomethane and implications of potential hydrogen blending.
- Operational emission innovation relating to reducing operational emissions, especially for vehicles where electrification options are not currently available.
- Clean Power 2030 target related innovation, given the changing role of gas generation in the electricity mix, given increases in distributed gas generation connect to Gas Distribution Networks (GDNs).
- Preparing businesses for a range of scenarios related to future changes and policy decisions, recognising the uncertainty in the long-term role of the gas.

Innovation is required to address uncertainties in the energy system transition, develop new technologies and approaches, and support consumers. This has been reinforced by developments since our Business Plan was submitted. The Climate Change Committee (CCC) noted in their 2025 progress report (June 2025)[19]; that 39% of emissions reductions required to meet the UK's 2030 Nationally Determined Contribution face, "significant risks, or insufficient or unquantified plans". Meeting these gaps, in response to developments in policies and technologies, requires innovation, including in gas networks. There are opportunities to address these gaps using innovation in the gas system as demonstrated in the Frontier Economics report for WWU / IGEM Future Energy Networks on 'Accelerating Progress' towards carbon budgets, published in February 2025.[20] Sustainability First have noted "the importance of innovation in readying the gas networks for a very different future".[21]

As set out in the Innovation Strategy annex to our Business Plan, our stakeholders strongly advocate for innovation recognising it can prevent higher costs and avoid greater challenges in the future. The evolving role of the gas network can make use existing assets to decarbonise consumers at the lowest cost and disruption. A proactive, forward-thinking approach and the commitment to net zero is seen as important to our stakeholders, with strong support for collaborative work on the areas we aim to address in our RIIO-3 Innovation Strategy such as clean fuel vehicles and sustainable energy planning.

We note Ofgem's confirmation that activity related to 100% hydrogen should not be in scope of NIA, so we have not included any activity in our revised NIA plans as a result. However, given this position, to reflect the potential for future changes in government policy our view is now that Ofgem should institute a reopener mechanism such as:

- Retaining the RIIO-GD2 HYINT funding, enabling networks to apply for additional innovation funding should NIA funds be insufficient; or
- Consider an NIA review period similar to the ED NIA. Review NIA funding to assess whether additional NIA funding is required to support dedicated hydrogen projects based on policy changes.

We note that Ofgem has assessed that some proposed NIA work areas are duplicative of work that Ofgem, NESO or other parties are doing. However, especially in the case of NESO and local / regional energy planning activity, NIA funding should not be discounted purely on this basis: it should be used to support collaboration between NESO and Distribution Networks. Common access to NIA fosters collaborative partnerships between licensees, based on access to funding under common rules. We anticipate using NIA funding in this area to collaborate with NESO and other licensees and will follow and strengthen processes to avoid duplication as described below.

NESO has valued input from RIIO-GD2 projects led by WWU and other networks, which have informed and contributed to their plans. We are therefore particularly concerned that networks will be unable to respond to any NESO requirement to fund, or resource any energy-planning related innovation project in RIIO-GD3. NIA allowances should be made available for this activity, alongside the other areas identified above and under OVQ21.

In summary Ofgem should expand the criteria of NIA qualification to encompass the areas we have raised above, and institute a mechanism to permit additional NIA funding should policies change during the price control.

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[19] Progress in reducing emissions - 2025 report to Parliament - Climate Change Committee
[20] Accelerating Progress Towards 2030s Carbon Budgets | The Institution of Gas Engineers and Managers (IGEM)
[21] Sustainability-First-DD-response-GD3-GT3-Final-190825.pdf

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

No, we are concerned about the approach as set out in draft determinations. The definition of 'future of gas' should be as open as possible for NIA, reflecting the nature of innovation and uncertainty on how policy and technology will evolve. As noted in OVQ20, gas networks need to prepare during RIIO-GD3 for a range of future policy developments. Innovation is required to support potential future scenarios.

On this basis we are concerned that the 'future of gas' wording in draft determinations could be misinterpreted, particularly to innovators and third parties, for example to suggest that innovation to support biomethane is excluded. Please also note our comments in response to OVQ22 on this topic.

Ofgem's current approach would risk progress against the Net Zero 2050 emissions targets and nearer-term milestones such as Clean Power 2030 and Carbon Budgets, for example in relation to the expected growth in biomethane referenced in the government's Clean Flexibility Roadmap [22] and NESO FES 2025 Pathways, both published in July 2025. Subject to amendment we welcome the proposed biomethane UIOLI allowance (see response to GDQ20). However, we expect that will be focused on solutions that can be rolled out now with existing technology. Innovation allowances should in addition provide scope to develop new technologies and approaches to managing distributed green gas entry.

The report from our Accelerating Progress (NIA_WWU_02_68) innovation project[23] was published in February 2025. In this, we identified and detailed how gas networks could target to reduce gas system emissions; facilitate wider decarbonisation; and increase use of decarbonised gas (which included biomethane and blended hydrogen) to deliver faster reductions in greenhouse gas emissions to contribute to the UK's carbon budgets. The gas system can play a variety of roles in meeting carbon budgets and longer-term emissions reduction targets.

Innovation will be required to address a wide range of areas related to the future of gas including:

- Develop technologies and processes which support higher volumes of decarbonised gases
- Deliver the lowest cost, least disruptive transition for our domestic and business consumers
- Provide consumers with choices which help reduce their carbon emissions
- Manage increasing complex cross vector interactions efficiently
- Develop new energy system planning techniques
- Regional priorities and requirements

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

We support the principle of the advisory service, recognising supportive stakeholder feedback and noting that further work will be required to develop the scope and approach to providing the service. Networks will need to be heavily involved in this process to ensure the service is valuable and meets the needs of both early-stage innovators and the networks. Once it is operational, networks will require ongoing resource through RIIO-GD3 to support the proposed advisory service and engage fully with innovators to support development of project proposals.

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[22] assets.publishing.service.gov.uk/media/6880ab6a2b6fd60b7c160eef/clean-flexibility-roadmap.pdf, p.54

[23] Accelerating Progress Towards 2030s Carbon Budgets | The Institution of Gas Engineers and Managers (IGEM)

Dedicated funding administered through NIA would allow each network to employ resource(s) to support the approach and manage the interface with an enhanced advisory service. For WWU we estimate this cost at £330k across the price control in addition to existing resources, which should be funded via the NIA mechanism in addition to the wider allowance. This cost was not anticipated at the point of Business Plan submission. Appointment of a single body is only one aspect of this process (which we would like to see fairly procured with articulation of a clear scope of outcomes and benefits). Network input would be required to support upfront and ongoing activities and engagement with this body, and the relevant start-ups/Small to Medium Enterprise (SME) innovators.

The development of these services, and the stakeholder feedback which states they are required, provides further evidence that the proposed approach to 'future of gas' workstreams (see OVQ21) is too narrow. Early stages of innovation development are often focused on emerging technologies and markets which are very likely to include topics covered in the 'future of gas' criteria, meaning this service would exclude a wide range of innovation activity for NIA funded innovation which risks decreasing the value of this fund as a service. In terms of RIIO-GD2, this would exclude around 75% of projects that have generated valuable outcomes and learnings for consumers that facilitate wider Net Zero transition goals, while considering the regionality, choice, plus the lowest cost and disruption to consumers. For example, the projects researching end user safety of hydrogen that were submitted as evidence to both the HSE and DESNZ, to support policy and safety decision-making toward a Net Zero transition of the gas network.

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

While we welcome the ongoing improvement of governance in general, we note that oversight and monitoring has continued to strengthen during RIIO-GD2. The approach should therefore build on existing successful practices, avoiding unnecessary administrative work.

Ofgem has established additional oversight for NIA projects >£1m and think this process should be maintained subject to avoiding negative impact on project timelines. In relation to wider scrutiny of proposed projects, we currently publish details of every project online. We would be happy to revert to the RIIO-GD1 process where all Project Eligibility Assessments (PEAs) were also sent to Ofgem via email to notify intent to publish, but projects should not require confirmation from Ofgem to start as this would create an administrative burden and reduce the agility of the overall innovation programme.

Our innovation activity continues to add value for money for our consumers, as shown in the innovation strategy annex of our Business Plan. We have continued to improve processes to demonstrate value for money through RIIO-GD2 to improve reporting around the Innovation Measurement Framework and we have sought feedback from Ofgem during this process. Gas networks use the Gas Innovation Governance Group (GIGG) to continually assess opportunities to improve our processes and publish the 'Future Energy Networks Innovation Process document' to provide transparency on our approach to projects.[24] We are happy to continue to engage with Ofgem on demonstration of value for money and welcome any further specific proposals for discussion.

[24] Future Energy Networks Innovation Process (FENIP) | The Institution of Gas Engineers and Managers (IGEM)

In reference to the workshop on 11th August 2025, project budgets are fixed cost delivery models due to the nature of the projects, with risk shared across partners in the event of adapting to changes required within the project. We need to consider commercial sharing of detailed financial information, but work package breakdown is in place for every project as per terms of contracts.

We do not feel there is misalignment with SIF and NIA projects. For example, a WWU project, ALCHEM (Advanced Low Carbon Hydrogen and Energy Management), was not progressed through SIF after its initial phase and was highlighted in the recent Citizens Advice Innovation Project report. This was due to the SIF challenge criteria, rather than because of issues identified in the Discovery phase of the project. As a network, we made the decision to progress via the NIA funding route as we saw the value in the innovation for our consumers to reduce the cost and increase the flexibility of clean hydrogen production using waste biomass as a feedstock.

As individual networks we report annually; and as a collective group of networks we report every regulatory year. We ask for feedback each year from Ofgem and from our partners and key stakeholders which where appropriate, we work into the report in following years. We have also introduced new controls for consistency during RIIO-GD2, such as data quality measurement statements in the PEA registration process. To date we have not received any adverse comments from Ofgem on these annual submissions. We are therefore keen to understand where Ofgem now considers there to be gaps in current processes around the information we share. We have not had any tangible evidence offered for the gaps that have been alluded to; and with our robust processes and governance in place, we are keen to understand if any evidenced areas have been identified.

We note that during RIIO-GD2 it has been more challenging to predict and monitor benefits, as projects are generally at lower Technical Readiness Levels (TRLs). This is due to the focus on energy system transition activity. This has made it more difficult to show the value of these projects in financial terms as the learning has built through the price control, and projects have not generally developed technology which can be deployed on the network in the short term to realise a financial benefit. Those that have progressed however, have been reported in our annual innovation reporting.

Pending government decisions, any implementation derived from the learning generated in these RIIO-GD2 projects would deliver significant value beyond research and development. Such benefits could include facilitating higher volumes of greener gases; planning for eventual repurposing or decommissioning of network assets which could form part of the overall Net Zero decarbonisation strategy; or using existing assets, and providing lower cost options with less disruption to consumers.

Consideration must be given to any additional monitoring and oversight that increases regulatory burden on networks and the resource challenges that would result based on the current resource model for NIA as any additional burden is not currently accounted for in the Business Plan.

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

We welcome Ofgem's continued commitment to the Strategic Innovation Fund (SIF) and the associated funding.

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

In principle yes, we agree with the proposed changes to SIF towards a programmatic approach, although Ofgem should consult on how this would work and be managed as the role and make up of any programme is key to efficient and timely delivery. We are pleased that Ofgem is considering long term challenges, as this reflects network feedback and helps us to develop pipelines of projects that could also cross into later price controls. However, we think some short and medium-term priorities should also be considered on an annual basis as there is a need to be agile and continue to support shorter term targets like Clean Power 2030 (CP30), action to deliver against Carbon Budgets during RIIO-GD3, or respond to policy decisions and updated future scenarios as the journey to net zero progresses from increased knowledge or innovation delivery outcomes.

From experience with previous collaborative programmes, and dependant on confirmation of ongoing requirements of the programmatic approach, our current view is that we will need the following requirements addressed to support the Programmatic Approach:

- Dedicated funding either from SIF or within NIA which would allow each network to employ resource(s) to support the approach and manage the interface with Ofgem, UKRI, other licensees, and third parties, which we estimate at £450k across the price control for the level of FTE that would be required to support this approach. As this requirement was not anticipated on submission of the Business Plan, this funding should be additional to existing innovation allowances and could be managed either through NIA or SIF.
- A Responsible, Accountable, Consulted, Informed (RACI) matrix for networks and any other partners that would be included; this needs to consider any competitive advantage that non-network members would be subject to from inclusion within the task force.
- Clear outcomes and expectations and measurement of deliverables. We'd like to see the programmatic approach have clear demonstrable and transparent tracking of all projects across the programme, including dependency tracking, interlinking projects, knowledge and shared learning, risk management and tracking of benefits. We'd like to be able to view this information throughout the price control so networks can strategically approach the challenges and gaps with clear knowledge on what the SIF programme is delivering.
- Commitment that a proportion of challenges will be eligible for gas networks. We are keen to help develop these challenges as the process has excluded gas networks from multiple challenges in RIIO-GD2.
- Commitment that networks in addition to other stakeholders will have input into the process for setting the programme as networks with all their knowledge and expertise need to have a key role in the programme and not just in responding to wider stakeholder recommendations. This would include recognition of the ongoing role that gas networks will play in the whole system journey and outcomes to 2050 and is particularly pertinent as government decisions, market changes and updated future scenarios become apparent.

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

We are pleased that Ofgem has proposed a deployment fund to address a current need in supporting increased innovation deployment. Ofgem should consult on how this will work, as easy access to this funding is important. Previously, a similar mechanism in RIIO-GD1 was difficult to utilise and we want to avoid the same mistakes. It also needs to be inherently flexible to cover the wide range of innovation that could require deployment support.

Following the workshop on 11th August 2025, we would encourage Ofgem to consider the wide range of innovation projects that could use this allocation. The application process should not be limited by a materiality threshold and requires an agile application process with similar cycles to SIF to encourage innovation deployment more frequently. Examples provided in our innovation strategy outline several vulnerable customer related projects which would directly benefit consumers and not networks, would not hit the materiality threshold suggested, and could provide fast turnaround of benefit for consumers if the application process is agile and available at multiple points through the year.

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?

We agree in principle that the deployment fund should be open to projects that have not been funded through NIA, Network Innovation Competition (NIC) or SIF. This is providing there is guidance to make sure the process is clear when applying for any non-regulatory funding routes, as this would be a new route to deploy innovation that has been developed outside of regulatory funded mechanisms.

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

We agree with the proposal to retain the Discovery phase. Our response assumes that networks can continue to directly access Alpha / Beta applications where projects and technologies fit relevant challenges. The ability to directly access later SIF funding stages and the multiple cycles per annum has increased flexibility of this funding mechanism. This has been valuable to networks and supports SIF principles in accelerating innovation.

OVQ29. Do you agree with our proposals to retain the core aspects of the SIF for RIIO-GD3?

In principle we agree with the proposals to retain core aspects of the SIF. However, we would like to see the governance revisited to consider impacts of procurement processes, cost changes and the material change process to reduce the risks to networks and partners in developing and delivering SIF projects.

Specifically, SIF project funding being set at the award level with no opportunity to adjust the total funding via the material change route creates risks, especially for Beta phases projects. We have had a recent example in NextGen Electrolysis project where our request for additional funding was considered ineligible even though the process of SIF at the time did not allow us to run the required tender event within the time frame of the application window. Given the inherent uncertainties in innovation, and the aim of SIF to deliver transformational projects at pace, this approach creates risks for future applications which could restrict its use.

We propose Ofgem review the SIF guidance document to ensure it is future proofed for agile projects and it is clear on the process for material change of SIF projects. Specifically, where costs have varied from an earlier submission or where scope has changed to benefit both the outcomes and consumers.

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

Yes, we agree in principle, subject to confirmation on how exceptions and flexibility would be critically assessed, and the introduction of a transparent structure outlining factors that would impact contributions. Networks developing applications will need clarity on contribution levels required up front to support their internal project approvals process. As part of this we will need to understand how contribution rates will be determined; by who; and whether there is any appeal process if a network disagrees with the outcome. and whether there is any appeal process if a network disagrees with the outcome.

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

As the current proposal is unclear on the outcomes, a formal consultation should be undertaken to improve and add clarity to the SIF eligibility criteria and assessment process within the SIF governance document. This should include:

- The eligibility boundaries of SIF, to allow more flexibility of funding for production or demand related work, given these intrinsically impact network uses and design.
- Greater clarity and transparency of process between the assessor feedback on a project and the Ofgem decision making process, particularly where a project has been highly rated by the assessors but rejected by Ofgem. and
- Opportunity to challenge decisions in such cases

In relation to eligibility boundaries, we note the recent Green Gas SIF challenge is highly focused on 'integration' of green gases. To maximise its impact, we would suggest that such challenges should have more scope to consider related upstream topics such as increasing production and managing storage. elated upstream topics such as increasing production and managing storage. elated upstream topics such as increasing production and managing storage. elated upstream topics such as increasing production and managing storage.

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

We disagree with a direct pathway for transformative projects. As a minimum this should be subject to consultation including the mechanics of the proposal and its resourcing implications for networks. This process has not been considered in development of our Business Plan not part of the sector specific methodology for establishing RIIO GD3. We are happy to discuss further once Ofgem provide detailed proposals and consult accordingly.

The proposal risks missing out governance steps which consider the benefits of innovation to networks and their consumers and undermines the requirement for networks to set out joint innovation strategies and processes for third parties to follow. This pathway could be abused by innovators to continually challenge rejected projects, risking additional administrative burden to both networks and Ofgem.

The way NIA and SIF are currently structured mean they are not purely about direct network financial benefits. In fact, NIA cannot be used for general process or technology innovation where near-term financial benefits are likely highest, as they are focused on future of energy transition and vulnerable customer innovation. SIF also has a robust and independent approvals process with Innovation UK support.

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

We agree in principle, but we would want input and consultation on the process of clarifying roles and responsibilities. This should consider existing network-led activity including events, and ongoing collaboration on challenges, projects and dissemination. Around half of WWU projects involve formal collaboration with other networks.

As outlined in the Innovation Strategy submitted with our Business Plan, we gather and publish a wide range of project data. Our dissemination activity includes a range of channels. We use industry events, working groups with national and regional organisations, and both social and traditional media to disseminate learning to a broad group of stakeholders.

We welcome continued collaborative working and ongoing improvements. Clarification of roles and responsibilities would be welcome regarding organisation and responsibilities of the annual dissemination event. Networks must retain input into the scope and agenda of any events and the ability to efficiently manage cost and resource implications. Any new changes to roles and requirements on networks need to consider that any exceeding of RIIO-GD2 levels of resource would have not been accounted for in our Business Plan and will need to be consulted using the due process and drafted with the appropriate stakeholders.

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

We support improving reporting providing the additional burdens on networks are minimised and are appropriately resourced. In addition, we would require input and consultation on the requirements so we can assess impacts on resource as this has not been factored into the current Business Plan. Additional time or resource should be an allowable project application cost in advance of any new obligations being enforced.

Cyber Resilience

OVQ35. Do you agree with our proposals for the Cyber Resilience re-opener?

There is a clear disconnect between the draft determination proposal (Published 1st July 2025) of a reopener window in 2029 and the draft consultation on the licence (Published 30th July 2025) stating 2028 as the window.

We do not agree with some of your proposals for the cyber resilience re-opener. We believe that one re-opener window is insufficient for the high uncertainty and risk in this area. We propose two reopener windows are needed, one window in 2029 and one in 2031. The proposal in the licence for the window in 2028 does not allow sufficient time between CAF Enhanced profile attainment by December 2027 and a significant change in the threat landscape, or in legislation (i.e. a potential move to requiring CAF attainment beyond Enhanced Profile), that requires a materially different response from GDNs to that agreed at the start of RIIO-GD3, hence our second reopener proposal of 2031. Our stance is mindful of the ever-changing Critical National Infrastructure (CNI) threat landscape requiring commitment of cyber resource and response. We strongly believe that this re-opener should be both authority and GDN triggered to allow the agility to be able to address these changes in a timely manner, ensuring operational resilience and the security of supply is protected for consumers.

Data and Digitalisation

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

We support this. The licence is driving the industry in the right direction and changes at this stage could have unintended consequences of disrupting well thought out and planned programmes in flight. Collaborative discussions with Ofgem are providing added value, and we support continuation of this engagement in RIIO-GD3.

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

We see this as an area of risk to GDNs. Ofgem's proposal is to give GDNs a potentially unfunded obligation to deliver an undefined item by a delivery date to be defined by NESO. While we currently engage with NESO and will continue to do so, decisions are largely outside our control. We will review the proposed licence drafting; however, as a general comment We strongly suggest that the licence wording expresses our cooperation with NESO to agree a design and delivery date - rather than obligating GDNs to deliver an undefined output by an unstated delivery date. This is an area that requires an appropriate re-opener mechanism to reflect the current uncertainty on solution, as costs are currently uncertain. This will protect both consumers and Networks from over/under funding.

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

This is an area of uncertainty where it is currently not possible or appropriate to give detailed scope. Digitalisation is an area of critical importance to net zero but has high levels of uncertainty and constantly evolving requirements to support NESO and other influential parties. We suggest that the scope specifically includes unfunded costs for the Data Preparation Node (in relation to the new Data Sharing Infrastructure (DSI) licence condition); and the National Underground Asset Register but is not limited to these. There is a risk to the net zero transition if there is not significant flexibility to respond to emerging requirements in this area. These will likely come from government, NESO and regulators so will have justification and credibility. Any request for funding through a re-opener would be subject to a high level of scrutiny which would limit risk of an expanded and less prescriptive scope and protect consumer bills.

RIIO-GD3 Draft Determinations GD Annex Response

Outputs and incentives

Summary

- We have collaborated with other GDNs to align Business Carbon Footprint (BCF) targets using a consistent methodology and baseline year. Our targets reflect differences in business models, such as our insourced workforce, which affects emissions categorisation.
- We challenge Ofgem's 11-year payback assumption for repex investments, proposing 2050 as a more realistic horizon. We challenge Ofgem's 11-year payback assumption for Repex investments, proposing 2050 as a more realistic horizon. We also call for the removal of caps on Tier 1 mains and services PCDs to allow efficient delivery of the 30/30 programme. We support Ofgem's preferred approach to Tier 1 stubs but stress the need for accurate unit cost calculations.
- We broadly accept Ofgem's proposals on customer satisfaction, complaints, and PSR-related ODIs, but recommend setting targets based on actual RIIO-GD3 data to ensure fairness. We support the expansion of collaborative streetworks and the introduction of new ODIs, while highlighting the need for clarity on funding, regional applicability, and potential cost implications not covered in our Business Plan.

Infrastructure fit for a low-cost transition to net zero

GDQ1. Do you have any views on our proposed approach for the GD-specific environmental commitments, costs and targets?

Aligned Gas Distribution Network Business Carbon Footprint Reduction Targets for RIIO-GD3: Joint Response.

In Ofgem's RIIO-3 Draft Determinations Gas Distribution Network document, it is stated that Ofgem, '*expect the GDNs to work together to apply a consistent methodology for setting BCF targets and to re-submit targets in their Draft Determination responses*.' Ofgem identified difficulties in comparing the targets presented in the GDNs' RIIO-GD3 Business Plan submissions due to varying base years and methodologies.

In response to this requirement the four GDNs worked together to revise our Scope 1 and 2 BCF targets so they have a common baseline year, year end, and methodology. These targets are presented in the Table 4 below, alongside their data coverage (Table 5) and assumptions, and supersede those presented in the individual GDN RIIO-GD3 Business Plan submissions. For context this should be read alongside table 6, which sets out combined non-shrinkage Scope 1-3 emissions (excluding shrinkage) in the proposed baseline year, and illustrates the impact of different network business models.

Table 4 Revised GDN RIIO-GD3 Scope 1 and 2 BCF Reduction Targets

Network	Baseline		Target		% Reduction over period	Market based or Location based methodology?
	Year	tCO2e	Year	tCO2e		
Cadent	2023/24	27,181	2030/31	25,833	5.0	Location based
NGN		5,736		2,021	64.8	
SGN		18,215		14,247	21.8	
WWU		12,691		11,905*	6.2	

Table 5 Revised GDN RIIO-GD3 Scope 1 and 2 BCF Reduction Targets Data Coverage

Included in baseline and target?	Network			
	Cadent	NGN	SGN	WWU
Scope 1: Shrinkage	N	N	N	N
Scope 1: stationary combustion (metered natural gas in premises / infrastructure)	Y	Y	Y	Y
Scope 1: mobile combustion (vehicles)	Y	Y	Y	Y
Scope 1: mobile combustion (plant / equipment)	Y	Y	Y	Y
Scope 1 F gases	Y	Y	Y	N (negligible)
Scope 2: electricity use in premises	Y	Y	Y	Y
Scope 2: electricity use in electric vehicles	Y	Y	Y	Y

Joint GDN assumptions relating to the presented targets:

- Business Carbon Footprint (BCF) = Scope 1 and 2 emissions excluding gas shrinkage. The targets presented here cover all material Scope 1 and 2 emission sources for all GDNs; however, there may be some minor variability across low materiality items.
- Each GDN presented bespoke BCF targets within their RIIO-GD3 Environmental Action Plan. Ofgem identified difficulties in comparing these targets due to varying base years and methodologies. The targets presented represent amended targets to aid comparative analysis by Ofgem
- *WWU's 2031 BCF figure is estimated from information including the fleet structure provided in the separate Operational Transport Data Request Excel spreadsheet appended to the OVQ3 response. The BCF forecast is highly dependent on the Final Determination regarding fleet (including the Operational Transport PCD); charging infrastructure; and forecast workload – see further explanation below. Other networks' targets are presented under the same assumptions as those presented in the RIIO-GD3 Business Plan submissions; refer to their responses for further information.
- 2023/24 has been selected as the common base year for all networks for the presented aligned RIIO-GD3 BCF targets to minimise any impacts of the COVID-19 period and align with the final data used for the RIIO-GD3 Business Plan submissions.
- Variations in baseline emissions between different organisations reflect differences in operating business models. For example, Wales & West Utilities insourced its mains replacement workforce in 2021. This effectively brought contractor emissions previously reported as scope 3 into scope 1.
- Baseline emissions and target emissions are presented on a location-based methodology for consistency.
- Baseline emissions are taken from Annual Environmental Report submissions.

Forecasts for emissions at the end of RIIO-GD3 may change following Final Determinations depending on the outcomes of key decisions which impact workload and delivery, including for example the Operational Transport PCD (see OVQ3).

Impact of Operational Transport assumptions and PCD (OVQ2)

As per Ofgem's request, we have compiled detailed data for all vehicle types, volumes and costs expected to be purchased in RIIO-GD3 in a separate Excel template, prescribed by Ofgem, which is found as Appendix OVQ3A – Operational Transport Data Request. We note in the document that we will consider the purchasing of a BEV for any vehicle category if suitable infrastructure and a vehicle that meets all the features of the stated diesel variant becomes available, and the PCD is workable in line with the suggestions we have made above. Any BEV must be fit for purpose and represent value for money for the gas consumer. We would also welcome the opportunity to purchase alternative fuel, low-carbon vehicles through the PCD and/or facilitated by NZARD UIOLI or reopener funding, such as ULEV, Hydrogen, and Biomethane vehicles, subject to availability and suitability.

Ofgem should note that our Business Carbon Footprint (BCF) forecast for the end of RIIO-GD3 assumes a largely diesel fleet as per the Operational Transport Data Request spreadsheet. This is an estimate that we would want to revise through more detailed modelling following the Final Determination. If the final determination PCD is workable and additional zero or low emission vehicles are able to be efficiently purchased and integrated into our fleet plans, our total BCF (scope 1 / scope 2 excluding shrinkage) could be reduced. This demonstrates the importance of the design of the PCD and funding for alternative lower carbon vehicles.

Impact of WWU Business Model

To take account of the difference in business model – namely WWU insourcing mains replacement at the start of RIIO-GD2 – we compare the total scope 1- 3 (exc. Shrinkage) emissions of the four GDNs for the baseline year of 2023/24 as provided in network 2023/24 AERs.

Table 6 2023/24 Baselines in tCO2e

Network	Scope 1 & 2 (excl shrinkage)	Scope 3 Total	Total Scope 1/2/3 (exc. Shrinkage)
Cadent	26,940	35,190	62,130
NGN	5,102	23,776	28,878
SGN	18,215	38,950	57,165
WWU	12,691	13,125	25,816

The larger scope 3 emissions of the other networks are likely to reflect that they outsource more Repex activity than WWU: total aggregate scopes 1-3 emissions are more aligned to the size of each network. When assessing 2031 forecasts/targets and the joint response, Ofgem and other stakeholders should take be aware of variance resulting from different business models.

Joint GDN Statement Regarding SBTi Certification of Carbon Reduction Targets

As gas network operators, we recognise the need for robust and responsible emissions targets.

GDN greenhouse gas emissions are dominated by shrinkage (>90%) giving our company emissions a unique profile. The Science-Based Targets initiative (SBTi) have developed a series of standard methodologies for carbon reduction pathways to net zero for a range of industries. Such standards

stipulate that targets must include all aspects of Scope 1 and 2 emissions, so for GDNs this would include shrinkage and BCF emissions.

The proposed Oil and Gas Standard of the SBTi aims to establish a responsible pathway to net zero for our sector and has been under development for a number of years. During preparation of all GDN RIIO-GD3 Business Plans it was assumed that this standard would become available in the near future and certification by GDNs could be sought. Subsequently, in April 2025 SBTi have stated that development of the Oil and Gas Standard has now been officially paused. This leaves the GDNs in the position of being unable to attain SBTi certification of carbon targets currently or in the near future. If the Oil and Gas Standard is developed and published during the RIIO-GD3 price control period, we will aim to seek validation against this standard, or a suitable alternative should it become available, subject to consideration of cost, appropriate levels of funding to meet costs, and the net benefit to stakeholders.

Additionally, we recognise that the greenhouse gas conversion factors set by Department for Environment, Food & Rural Affairs (DEFRA) can change during the price control, and these can influence perceived performance of the KPI. Therefore, to ensure comparability, forecasts need to be revised at intervals to reflect equivalent conversion factors

Conversion factors are a mechanism to influence emissions-related market decisions and can go both up and down. This is also why our Environmental Action Plan (EAP) focuses on the activities that will reduce emissions rather than setting a precise target - knowing the target might be missed due to factors beyond our control (or lack of adequate funding), despite considerable effort to reduce emissions.

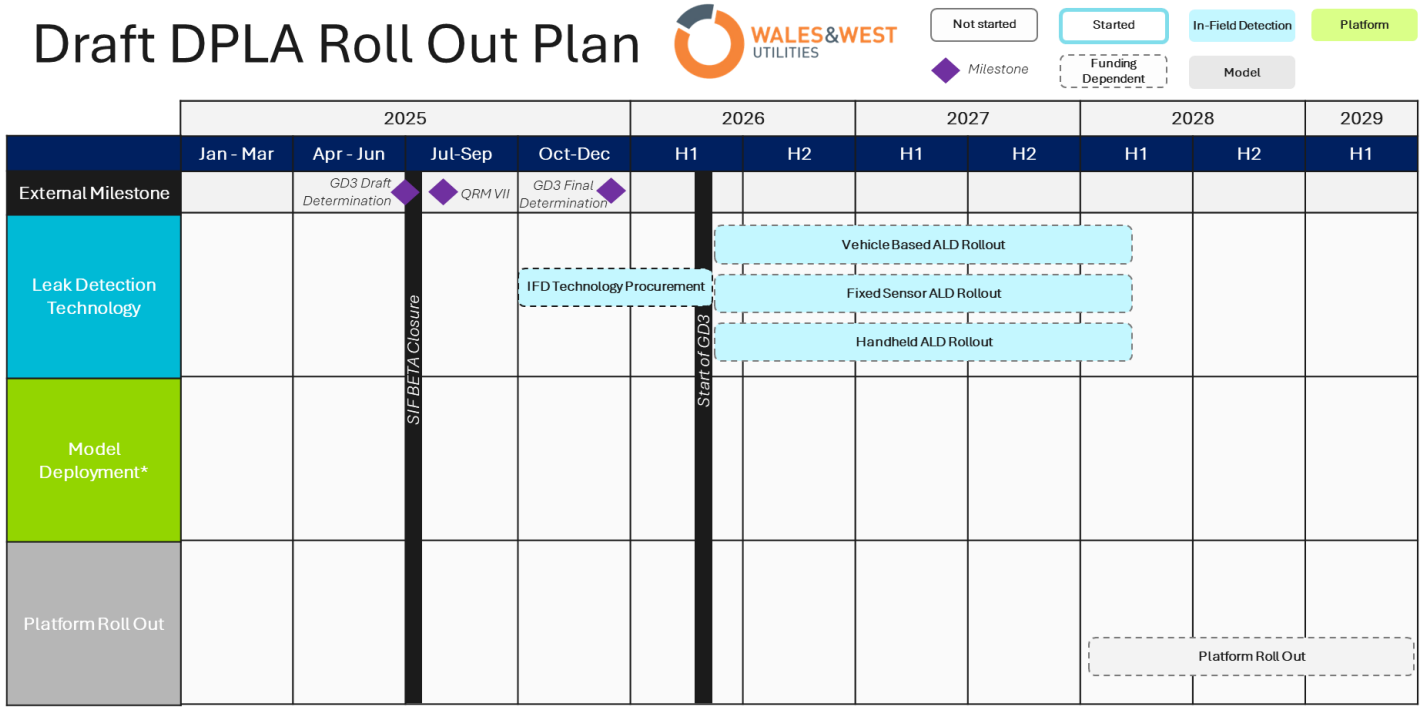
GDQ2. Do you have any views on our proposed funding for the DPLA and ALD?

We agree with the following work and funding pairings, in line with our Business Plan submission:

- Advanced Leak Detection (ALD) - through base Totex
- ALD above and beyond our December Business Plan - through NZARD UIOLI
- The Digital Platform for Leakage Analytics (DPLA) - through a re-opener mechanism.

Our high-level plan for DPLA rollout is laid out below, with the Gantt chart showing our current view. It should be noted; there remains a high level of uncertainty on cost and timelines - with DPLA that should be refined as the DPLA SIF project progresses. The requirement for a re-opener is clear at this stage. Further information as requested by Ofgem can be found in Appendix GDQ2A- Picarro.

Figure 1 Draft DPLA Roll Out Plan



GDQ3. Do you agree with our proposed design of the 7- and 28-Day Repair Standards ODI-F, including the proposed performance targets and incentive rate?

We generally agree with the proposed introduction of a 7- and 28-day repairs standards ODI-F in RIIO-GD3. This should not impact and adversely affect our management of gas escapes, prioritising safety of consumers and the public.

To balance this, we propose that in the event of a severe weather winter period, we have the ability to report on extreme circumstances that have a detrimental impact to performance levels for this measure.

With this protection in place, we believe this incentive will drive correct behaviours.

GDQ4. Do you agree with our proposal to enable the GDNs to submit RESP coordination and engagement activities through NZARD and NZASP?

We agree that Regional Energy Strategic Planning (RESP) coordination and engagement activities should be funded through NZARD and NZASP. However, we are concerned that NZARD allocations are too low for the volume of activity which may be required, based on the draft RESP guidance document; draft RESP licence conditions for GDN; expected participation in other NESO activity; and experience of local and regional energy planning.

This is activity which will be required prior to any implementation of RESP decisions. Implications of such decisions are appropriate to fund via NZASP, but the preliminary work required is substantial and should be fully funded via NZARD to ensure efficient and effective delivery during RIIO-GD3. We have also noted this in response to OVQ15 and provide further detail in a summary table in WWUQ7 on NZARD UIOLI allowances, made up of individual projects, none of which exceed the materiality threshold for NZARD UIOLI, summing to a total of £4.67m.

Secure and resilient supplies

GDQ5. Do you have any feedback on our approach to assessing non-mandatory repex workloads?

We do not agree with the move to an 11-year payback period for assessing asset investment.

We have an absolute duty under Pipeline Safety Regulations. The text below is an extract of the requirements on gas networks:

> *The operator shall ensure that a pipeline is maintained in an efficient state, in efficient working order and in good repair.*
>
> *59 This regulation deals with the requirement to maintain the pipeline to secure its safe operation and to prevent loss of containment. Maintenance is essential to ensure that the pipeline remains in a safe condition and is fit for purpose.*
>
> *60 The operator needs to consider maintenance and inspection requirements for the pipeline. Examination and monitoring of the pipeline are part of routine maintenance. The operator needs to consider both how and when the pipeline should be surveyed and examined to validate and maintain it in a safe condition.*

61 The extent of the work done to maintain a pipeline will depend on its material of construction, its location, the fluid conveyed and the condition under which it is operated. For example, for low pressure gas distribution and service pipelines onshore, the operator should monitor the pipeline to secure its safe operation. For major accident hazard pipelines, the maintenance plan should form part of the pipeline's safety management system.

Due to very limited practicable options to maintain <2bar iron and steel, replacement is essential for GDNs to demonstrate compliance with these regulations.

There is significant correspondence and action from HSE to support the point that zero investment in these assets is not acceptable. Correspondence to WWU in response to GSMR reports is shown in the example below in response to GSMR reports:

'We remain concerned about this pipeline given the large numbers of recent failures. Particularly given these are related to corrosion. Whilst the pipeline may not be subject to replacement via the MRPS it still remains a pipeline and as such is subject to Regulation 13 of the Pipelines Safety Regulations around maintenance. We are going to follow up more widely around the topic of condition monitoring during the intervention plan inspection later in the work year, however in the interim we do need to get more assurance around the plans in place for this specific section of pipeline. Please can you confirm:

1. The timeframe for any planned replacement

2. What additional condition monitoring do WWU propose to undertake in the interim given the high numbers of recent failures on this section of pipeline.

Should we be unable to confirm that these issues are being addressed then we may need to consider enforcement action in relation to these matters.'

Payback period

The decision to reduce the payback period to 2037 appears arbitrary, without supporting analysis and evidence. All GDNs submitted evidence to support a longer period, so it would be good to understand the counterevidence that suggests a high probability of gas assets not being needed in 11 years' time.

Getting this wrong has significant financial implications for consumers in future. Ofgem is building protections for future consumers into the price control through accelerated depreciation. Using an 11-year assessment period drives Operational Expenditure (Opex) solutions which, unlike Capital Expenditure (Capex), are not recovered over a long period of time but rather there and then. This will mean that bills significantly increase in an Opex future for the consumers remaining on the gas network. These are the consumers Ofgem suggest with the least resource to absorb these bill increases.

The investment disallowed using the 11-year payback is predominantly on Tier 2 and 3 iron pipes. Tier 2 and 3 pipes are large diameter mains that tend to feed large parts of networks; for power stations; industrial and commercial users, as well as domestic users. For these assets to be end of useful life and decommissioned, every domestic and non-domestic consumer in those areas would need to be disconnected from the gas network and moved to alternative fuels.

4.They cannot be decommissioned until all consumers supplied from them leave the gas network. Given the lack of targeted policy to move areas from gas and looking at today's incredibly low switch rates to electrification (even given the significant financial incentives), there is no credible scenario where these assets will not be needed well into the 2040s as a minimum.

This is supported by external bodies to the networks. Official publications on the future of energy in the UK indicate a long-term role for gas network infrastructure, including in developing pathways to Net Zero carbon emissions. The UK government has indicated through its "Midstream gas system: update to the market" (June 2025) that it intends to undertake, "a long-term programme of work to ensure that the gas system supports our Net Zero ambitions while continuing to deliver for the British people."[25] Advisory publications to UK Government such as NESO's Future Energy Scenarios, and Committee on Climate Change Carbon Budget 7 advice, imply that even in scenarios with higher electrification the gas system will continue to be substantially required into the 2040s and beyond.

Noting the potential for lower carbon gases (biomethane, hydrogen and synthetic gases); our ambition is to be Net Zero-ready in areas most likely to convert to hydrogen by 2035, if sufficiently funded and supported by central and local Government. Subject to ongoing regulatory approval, the current iron mains risk reduction programme will be completed by 2032; meaning that the majority of our distribution network will be made of Polyethylene (PE) - which can then be utilised for the future distribution of hydrogen and hydrogen blended gas. This work programme may vary after the end of the current iron mains risk reduction programme in 2032.

We would suggest 2050 is a more pragmatic and balanced cut-off period for Cost-Benefit Analysis (CBA). A date which can be revisited for RIIO-GD4 when we expect there to be further evidence that the gas network will continue to be required.

Advanced Leak Detection

HSE also require us to condition monitor using ALD. This is also supported by Ofgem (SSMD) as a useful tool in addressing methane emissions. With no investment in non-mandatory Repex, we have no ability to react and respond to the results of ALD surveying. There is little point in surveying the assets if we have no allowance to target emissions, safety, and operating costs through mains replacement.

Implications of not funding:

- If Ofgem's position were to remain unchanged, there will be a number of adjustments required in FDs
- Operating costs will need to increase to reflect the increase in large diameter repairs as these assets deteriorate without replacement
- Shrinkage and emissions targets will need to be pared back to reflect the lower levels of investment in reducing emissions
- Un-planned interruption targets will need to be reviewed to assess the impact of an increase in large diameter pipe failures.

In addition to these impacts, there is also an employee and public safety risk to be considered in repairing larger diameter mains. These are often in more major traffic routes, require large excavations and more time to repair. These factors all increase safety risk and should be avoided if possible. A key safety principle is the 'ERIC' hierarchy of controls (Eliminate, Reduce, Inform, Control). Eliminating risk is the most effective and should be adopted wherever possible

[25] Midstream gas system: update to the market - GOV.UK.

GDQ6. Do you have any comments on the proposed design of the Tier 1 Mains Decommissioned PCD, including the position to retain the 3% cap on the upwards Allowance Adjustment Mechanism?

We consider that the 3% cap should be removed. As there is only one further year post RIIO-GD3 within which to complete the 30/30 programme, the 3% cap simply acts as an obstacle to efficiently closing the programme out. The ability to over-deliver in the early years of RIIO-GD3 (with a corresponding over-delivery across RIIO-GD3) significantly reduces delivery and cost risk at the tail end of the programme in the final years. Taking into account the slow money impact of Repex, and Accelerated Depreciation end date of 2050 for new assets, accelerating 100km forward from the start of GD4 into GD3 would bring forward less than 70p per consumer per year. Consumers would then benefit from a commensurate lower cost in the subsequent years due to reduced leakage and repairs

Conversely, a 20% price increase in the final years of the programme due to GDNs and other utilities competing for resource would have the impact of an increase of £1 per consumer per year,

Keeping the cap increases both cost and delivery risk, but removing the cap potentially results in lower bills over time, while enhancing the safety of the network.

GDQ7. Do you have any comments on the proposed design of the Tier 1 Services PCD, including the position to retain the 10% cap on the upwards Allowance Adjustment Mechanism?

In line with the approach on Tier 1 mains, we consider that the 10% cap should be removed. As we only have RIIO-GD3 plus 1 one year of RIIO-GD4 to complete the 30/30 programme, the 10% cap simply acts as an obstacle to completing the programme. The ability to over-deliver in early years significantly reduces delivery and cost risk in the final years This is explained in our response to GDQ6 above.

Also, restricting flexibility on service replacement can have a negative impact on programme delivery in the final years of RIIO3 as mains projects may need to be moved around to ensure attached service volumes remain within a deadband. This would unnecessarily disrupt a programme which in turn, drives up costs.

In summary, there is no downside to removing a cap and collar on services but retaining it could potentially drive up costs of the programme.

GDQ8. Do you agree with the proposed design of the Tier 1 Iron Stubs PCD?

We support the principle of stubs being funded by a PCD. There is some uncertainty of the work required until the stub is exposed on site, so a mechanism that funds based on actual intervention required by volume protects consumers and Networks. However, there are two elements causing concern

- Unit costs - it is important to ensure the efficient unit costs of delivery is appropriately calculated. We commit to working with the other GDNs and Ofgem to resolve this by final determinations.
- Cap to workload – gas networks have well established processes for record updates when missing assets or wrongly categorised assets are found. This will inevitably result in more stubes than known at the time of BP submission. As such, we suggest the cap in the PCD is removed and funding is reconciled at the end of RIIO3 to reflect actual work done in the price control

Further information on our stubs population can be found in Appendix GDQ8A- T1 Stubs

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GDQ9. Do you agree with our proposal to update the Emergency Response Time LO to prevent the downward reclassification of gas escapes?

We consider reclassification to be a bad practice with potential negative impacts on safety. We do not allow this in WWU and fully support the update to Licence.

GDQ10. Do you agree with our proposed design of the ERTLO ODI-R?

No, we do not agree. The licence obligation is an overall standard not a specific standard for each attendance, so a single non-attendance within 1 or 2 hours is not a licence obligation failure. Proposing the title of, 'Emergency Response Time Licence Obligation / Output Delivery Incentive – Reputational', is misleading; we recommend it is called Emergency Response Time ODI-R; this is more accurate and more efficient.

In theory, we can provide the data requested; however, the requirement to provide a commentary is onerous and unlikely to be useful - we question the use Ofgem would make of this data. Attendance at public reported escapes is primarily a matter for the HSE and not Ofgem, and there is no benefit to providing data that is not going to be used.

High quality of service from regulated firms

GDQ11. Do you agree with our proposed design of the VCMA UIOLI mechanism?

We agree with the design of the VCMA UIOLI mechanism and accept the proposal for £165m funding across the GDNs which equates to £19.3m for us in 23/24 prices. We look forward to working with Ofgem to update the VCMA governance document and define VCMA and BAU activities and spend in readiness for final determinations and RIIO-GD3.

We are committed to deliver the best value to consumers in terms of messaging and spend. However, we understand that as we transition to new funding mechanisms in RIIO-GD3, there needs to be clear parameters to mitigate the risk of double funding, maintaining transparency, and a consistent approach, across the GDNs.

The splitting of certain activities and funding into BAU is clear. This will allow us to continue with successful projects that have been embedded in our organisations for several years, while also ensuring we can continue to innovate and support consumers in vulnerable situations through the VCMA allowance. These activities and their associated funding have already been outlined in the supporting tables submitted previously, reinforcing our commitment and strategic approach.

GDQ12. Do you agree with our proposed design of the Customer Satisfaction ODI-F?

In our Business Plan we proposed to retain RIIO-GD2's reward and penalty targets in RIIO-GD3; however, we accept the proposed design of the customer satisfaction ODI-F for planned work and unplanned work as well as the proposed minimum survey threshold.

Conversely, due to the uncertainty of the number of domestic new service connections in RIIO-GD3 and Ofgem's removal of both the Domestic Load Connection Allowance (DLCA) and the Fuel Poor Network Extension Scheme (FPNES), we propose the ODI-F for connections is reviewed using the first year actual

data for RIIO-GD3 customer satisfaction scores to re-base reward and penalty targets,, when the impact of these changes will be more certain. We have requested further engagement with Ofgem on this matter ahead of final determinations.

GDQ13. Do you agree with our proposed design of the Disconnections Customer Satisfaction ODI-R?

We recognise this is a growing area of work in RIIO-GD3 and accept a 'Disconnections Customer Satisfaction ODI-R', to report our annual performance.

Our aim is to provide a high level of service to all consumers, including those who have decided to disconnect from the gas network, whether they are demolishing a property or transitioning to an alternative heat source.

The GDNs have worked together at their own cost to implement a trial customer survey in 2025/26 for customer paid and safety driven disconnections; but there is uncertainty with the number of disconnections and customer surveys completed in RIIO-GD3 to provide a statistically reliable score. We commit to include our score in our annual RRP and publish on our website for transparency to consumers. We look forward to working collaboratively with Ofgem to develop the design of the customer survey questions for customer driven disconnections. A customer driven disconnection follows a similar process to connections customers, where we will know who our customer is, so a survey is appropriate.

For safety driven connections, there is no customer request to disconnect. Often, the customer is unhappy with the fact we are there to disconnect due to legislation. As such any scoring of a survey is likely to be negative regardless of the quality of our work and communication so scores cannot be used to assess our performance in this area.

In relation to reporting Priority Services Register (PSR) customers separately in our annual vulnerability report, this will be acceptable for customer paid disconnections that still have a gas supplier registered to the property when they apply to us. However, for customers that have removed the gas meter and do not have a gas supplier registered to the property, they will no longer be on the PSR and therefore we will not have the ability to report this data. This will be the case for all safety driven disconnections across all GDNs.

GDQ14. Do you agree with our proposed design of the PSR Customer Satisfaction ODI-R?

We accept the proposed retention of a 'PSR customer satisfaction ODI-R' with updated targets in line with the 'customer satisfaction ODI-F' for planned work and unplanned work. This has been positively received by stakeholders in RIIO-GD2, and we will continue to showcase in the annual vulnerability event and publish in annual vulnerability report.

In relation to the ODI-F for connections, we propose this is reviewed using the first year of RIIO-GD3 actual customer satisfaction scores, to re-base reward and penalty targets. We propose this would be mirrored for the 'PSR customer satisfaction ODI-R' and re-base targets.

GDQ15. Do you agree with our proposed design of the Complaints Metric ODI-F?

Yes, we agree with the design of the 'Complaints Metric ODI-F', in RIIO-GD3. We would welcome and support consistency of applying the complaints handling regulations to ensure the fair treatment of customer complaints and comparison of scores between the GDNs.

GDQ16. Do you agree with our proposed design of the PSR Customer Complaints ODI-R?

We accept the introduction of a PSR customer complaints ODI-R and will publish performance in our annual vulnerability report. We pride ourselves on looking after our most vulnerable customers in our communities and will strive to resolve complaints.

GDQ17. Do you have any views on the proposed approach to setting unplanned interruption targets for both non-MOBs and MOBs through the Unplanned Interruptions ODI-F?

Yes. We accept the proposal to differentiate between non-Multi Occupancy Buildings (MOBs) and MOBs within the 'unplanned interruptions ODI-F'.

We accept the proposed common Minimum Performance Level (MPL) of 13 hours and Excessive Deterioration Level (EDL) of 18 hours for non-MOBs, and agree a common target is a correct measure for the GDNs.

For the reasons we stated in our Business Plan submission and BPDT commentary, we proposed a MPL of 500 hours and EDL of 750 hours for MOBs. We do not agree that our targets should be aligned to SGN Southern, with a MPL at 212 hours and EDL of 412 hours. We have a similar portfolio of MOBs to Scotland rather than Southern in our network, as you can see in the tables below using data from 2025 RRPs:

Table 7 WWU MOB population

WWU					2022	2023	2024	2025
Risers	3-5 floors	Risk Control	Volume	No. of Risers	10,204	5,825	6,390	6,907
Risers	6-9 floors	Risk Control	Volume	No. of Risers	265	266	271	291
Risers	10+ floors	Risk Control	Volume	No. of Risers	223	205	189	159

Table 8 Southern MOB population

Southern					2022	2023	2024	2025
Risers	3-5 floors	Risk Control	Volume	No. of Risers	12,090	12,971	14,246	16,712
Risers	6-9 floors	Risk Control	Volume	No. of Risers	3,765	3,677	3,764	3,687
Risers	10+ floors	Risk Control	Volume	No. of Risers	1,207	1,170	1,170	1,118

Table 9 Scotland MOB population

Scotland					2022	2023	2024	2025
Risers	3-5 floors	Risk Control	Volume	No. of Risers	7,117	8,351	8,636	9,133
Risers	6-9 floors	Risk Control	Volume	No. of Risers	508	520	530	531
Risers	10+ floors	Risk Control	Volume	No. of Risers	316	330	319	234

The reduction of MOB replacement workload in RIIO-GD3 proposed by Ofgem in draft determinations will result in additional unplanned interruptions of MOBs, affecting our unplanned interruption average time performance. With our original proposed level of funding, the works would have been included in our programme for replacement, avoiding unplanned scenarios.

We do not consider there to be any regional difference for MOBs and therefore we propose a common target for GDNs. An unplanned interruption to a MOB is the same across the UK and consumers should be treated consistently. Having bespoke targets for each GDN will result in an inconsistent approach to consumers having their gas reinstated. We have the same challenges as other networks with listed building and conservations areas that cause delays to gas being reinstated into those properties.

Our proposal is to include the ability to separately report any significant interruption events of a MOB. This is proposed to allow us to highlight any particular complex cases to Ofgem, that may increase our average MOB hours disproportional to the number of consumers affected. We propose an exemption for any third-party damage or interference resulting in an unplanned interruption to MOB.

GDQ18. Do you have any views on the proposed expansion of the Collaborative Streetworks ODI-F across GB?

We agree with the proposal to expand the 'collaborative streetworks ODI-F'. We would need to understand the feasibility of a central co-ordinator role for an area within our network, in line with the Greater London Authority/Greater Manchester Combined Authority. We have not included any costs within our Business Plan in relation to the expansion of the collaborative streetworks ODI-F into our network geography.

GDQ19. Do you have any views on the proposed minimum threshold, the methodology used to set it, and the incentive reward rate for the Collaborative Streetworks ODI-F?

We agree with the mechanisms outlined within the Streetworks ODI-F.

Managing uncertainty

Summary

- We generally support the uncertainty mechanisms that Ofgem has proposed for RIIO-GD3, however we have raised concerns about the limited scope of several of these and request expansions to reflect evolving regulatory and operational needs activities.
- We oppose a volume driver for Tier 2A mains due to project complexity and cost variability, recommending a re-opener mechanism instead.

Infrastructure fit for a low-cost transition to net zero

GDQ20. Do you agree with the introduction of the proposed Biomethane Connections UIOLI, including with the proposed scope and funding caps?

We welcome the recognition that biomethane connections should be encouraged in response to anticipated growth in biomethane production during RIIO-GD3. We note this reflects recent publications including NESO's 2025 Future Energy Scenarios pathways, and the DESNZ Clean Flexibility Roadmap (p.54). These publications anticipate significant growth in the volume of biomethane produced and connected; suggest significant potential for biomethane under a range of scenarios; and recognise its potential importance for the UK Government's clean power ambitions.

This UIOLI allowance should be focused on reinforcement required to enable the network to take the biomethane, not the costs of connecting the plant to the network. We understand that Ofgem does not want biomethane producers to benefit from two support mechanisms, but if the allowance is focused on capacity reinforcement this can be avoided as:

- Economic models used to set the original Renewable Heat Incentive and current Green Gas Support Scheme for biomethane are assumed to include an amount for connection to the network, but not for any network reinforcement. A separate mechanism for funding networks for reinforcement would therefore not be double funding for connecting to the network.
- Cadent's proposal was to replicate the arrangements used in electricity distribution for connection of renewable generation and apply them to the connection of renewable gas production. Currently for gas distribution exit connections we use the Economic Test (as in Section 4 of our Connection Charging Methodology); however, applying this this to entry connections results in no network support as GDNs do not have an entry capacity charge. Introduction of an entry capacity charge would be a major change to transportation charging methodology among GDNs. This means that an alternative approach is needed, hence Cadent's proposal.

We also recommend the UIOLI is available for costs related to existing connections in addition to new connections, as increasing production at existing plants is likely to be more cost effective than building and connecting a new plant. We agree that there should be test for whether the cost of the reinforcement is economic and one option is Cadent's high-cost cap proposal, that was based on arrangements used in electricity distribution, although we would consider others such as an economic test. With an economic test to demonstrate value an arbitrary cap of £1M per project would not be appropriate as this could restrict options and the test would provide reassurance on the delivery of value for money.

We recommend that details of the operation of the scheme are included in each GDN's 4B statement. This is consistent with exit reinforcement and puts the arrangement details in the place that consumers would expect to find them. Our 4B statement already contains information relating to entry connections; and as changes to 4B statements must be submitted to Ofgem for approval, this will provide an appropriate level of governance. In relation to capacity reinforcement, we have developed and trialled several solutions in recent years. These include NIA and NZARD UIOLI projects involving technologies such as Smart Pressure Control and Reverse Compression. Using this UIOLI allowance for solutions such as these would support increased capacity and flexibility for biomethane connections; and our engagement with stakeholders in the biomethane industry suggests they would support this approach.

On this basis, the scope of this UIOLI allowance should include both Opex and Capex; for the management and preparation of solutions to support biomethane capacity, and their ongoing operations. We recognise that networks would need to develop a consistent, detailed basis for how funding for reinforcement would work. This includes the various scenarios of shared reinforcement; or reinforcement for single connections, including where entry capacity has reduced due to changes in exit demand. It should also cover whether investment should be:

- Reactive (to existing or firm connections); or
- Proactive investment ahead of need (based on evidence of potential demand for entry connections).

We will work with Ofgem and other networks to develop this approach.

GDQ21. Do you have any views on our proposed design of the Heat Policy Re-opener?

We agree with Ofgem's proposals on the Heat Policy Re-opener.

Secure and resilient supplies

GDQ22. Do you agree with our proposed scope of the HSE Policy Re-opener?

The Health and Safety Executive (HSE) policy reopener is very limited in scope, being restricted to, "material changes to GDNs Repex costs that occur as a result of changes to Repex related HSE Policy or legislation". The current definition of Repex in the licence is:

> *Repex means replacement expenditure related to the long*-term programme of work to replace old and deteriorating mains, risers and services with plastic pipes.

Ofgem states in the draft determinations that, "... we consider that changes to the Building Safety Regulations, which materially impact repex costs for MOBs (i.e. costs associated with mains, risers or services replacements), would be covered by the existing scope of this re-opener." However, the work on MOBs that GDNs proposed to be in scope of the reopener is not captured by the definition of Repex. We therefore request that the scope of the reopener is extended to clearly cover this activity.

It should also be considered that the Ofgem definition of Repex does not include other WWU business undertakings where HSE Policy or legislation might bring about a material change. This would include other large elements of a GDN's services, for instance, network services (above ground installations) and/or emergency response.

GDQ23. Do you agree with our proposed design of the Tier 2A Volume Driver?

We do not agree a volume driver for Tier 2a is the best mechanism to protect both consumers and network companies. By their nature, Tier 2a pipes are complex to replace and somewhat unique. For example, our Tier 2a pipe in Newport High Street in RIIO-GD2 took years of planning; impacted many businesses, and significantly affected access to Newport High Street. This Tier 2a pipe was three times more expensive to replace than an average Tier 2b CBA pipe. Each project of this type is somewhat unique in its location and complexity.

The risk of using a unit cost in a volume driver is being too high and penalising consumers, or too low and penalising networks. To better serve the requirements of consumers; a re-opener with no trigger threshold allows for networks to recover actual costs following an efficiency assessment and protects consumers from overpaying.

GDQ24. Do you agree with the scope of our Diversions Re-opener?

The proposal is that the scope reopener is unchanged from RIIO-GD2, and we agree with this.

High quality of service from regulated firms

GDQ25. Do you agree with our proposed design and unit rates for the Safety Disconnections Volume Driver?

We welcome the introduction of a safety disconnections volume driver in RIIO-GD3. We propose that all safety disconnections are included in the volume driver inclusive of any legacy disconnections that will require physical works to be completed. This is potentially a significant but currently unquantifiable workload in RIIO-GD3, and we propose the volume driver can be used. It is important to recognise that our works are subject to regular inspection from the Health and Safety Executive (HSE), including disconnection activities.

We will respond to the related proposed disconnections framework Request for Information (RFI) and look forwarding to working collaboratively with Ofgem to establish our efficient unit cost in RIIO-GD3.

We fully understand Ofgem's concern about consumers potentially "paying twice" for the same work and the principle that networks should deliver work right the first time. However, we respectfully disagree with the characterisation of this issue as "inefficient costs" or a failure on the part of GDNs. The need for funding is driven by a change in regulatory interpretation and enforcement, rather than repeat work that should have been done earlier under the same standards. Below, we outline the reasons and justification for including legacy disconnection remediation costs in RIIO-GD3.

GDNs' Regulatory Obligations and Historical Practice

Legal Duty: GDNs carry out service pipe disconnections to comply with safety legislation. Regulation 16(3)(b) of the Gas Safety (Installation and Use) Regulations (GS(I&U)R) 1998 requires that if a gas meter is removed and not replaced within 12 months, the service pipe must be disconnected as close to the main as reasonably practicable (if no dedicated service valve exists). This duty stems from gas suppliers' obligations, but in practice GDNs perform the physical disconnection in support of suppliers' compliance

as required through the Uniform Network Code. Additionally, Regulation 14 of the Pipelines Safety Regulations requires GDNs to ensure that any pipeline no longer in use is left in a safe condition.

Historic Interpretation: When these regulations were introduced (the original GS(I&U)R in 1984, updated in 1998), industry practice evolved under the (formerly named) British Gas monopoly. It was interpreted that closing and sealing an external Emergency Control Valve (ECV) at the end of a service pipe met the requirement of disconnection, effectively treating the ECV as a "service valve" for compliance purposes. This interpretation was not formally challenged at the time and became standard practice within management procedures across all GDNs with a common inception date of November 1998, which allowed sealing off the service at the external meter position as an acceptable method.

For over two decades, GDNs continued this practice. It was seen as a safe and efficient solution:

- The service pipe, although left connected to the main, was isolated, capped, and labelled at the ECV. This was considered "leaving it in a safe condition", especially since any gas theft or tampering with a sealed ECV is illegal. To date, no systemic safety incidents have been attributed to this practice.
- It avoided excavation to cut off the pipe at the main, yielding significant cost and efficiency savings which benefited all gas consumers through lower network costs.
- It preserved the possibility of reusing the service pipe should the customer (or a future occupant) wish to be reconnected to the gas network. This spared such consumers the expense of a new connection. Many consumers who had their gas supply disconnected (often due to affordability issues) could later reinstate supply without prohibitive cost, an outcome with social benefits for vulnerable households.

All GDNs operated under this same approach with the work delivered and funded in previous price control periods; and GDNs considered their operations to be fully compliant with the regulations as understood at the time.

Change in Regulatory Expectations (HSE Intervention)

The situation changed when HSE revisited the issue of legacy service disconnections. In late 2022, HSE officially informed the industry (via the Gas Transporters' Operational Safety Group) that the longstanding practice of relying on sealed ECVs is no longer considered adequate to meet required legislation.

This development is not a new law, but it is a new enforcement stance. It changed the earlier assumption that an external ECV could serve as a 'service valve' and the point of permanent disconnection. GDNs, upon learning of HSE's position, recognised and reflected in their price control submissions that the following:

- Future disconnections (during RIIO-GD3 and beyond) must be carried out by excavating and cutting off pipes at the mains, except in cases where a service valve exists. HSE's redefinition of what constitutes a service valve will limit the latter scenario.
- There will be a need for an action plan from each GDN to cut off the gas services as close as is reasonably practicable to the main to eliminate any potential hazard from those PE services which were historically isolated at an external ECV. Not all will need intervention – some pipes may have been removed through other works like mains replacement – but a substantial number likely remain to be addressed.
- This is therefore new work that was not previously anticipated or funded. The previous approach was consistent with what was "delivered to standard" at the time. Only now has the standard been redefined by our safety regulator. GDNs are committed to complying with HSE's requirements,

and we have already begun updating procedures and planning the necessary actions. However, the scale of work – identifying, inspecting, excavating, and disconnecting legacy services across all networks is significant.

Why Consumers Should Not Be Seen as "Paying Twice"

Ofgem's concern that consumers have already paid for these activities is understandable. We will clarify why funding in RIIO-GD3 constitutes paying for a different and more costly standard of disconnection, not paying twice for the same work:

- What was paid for has been delivered: In previous periods, consumers funded GDNs to perform safe isolation of redundant services. Those services were made safe per the accepted practice (ECV, acting as the service valve, isolation), and resources were used efficiently to keep costs low. Consumers received the benefit of that efficient approach in their bills. There was no allowance given (nor work done) to excavate and cut off those pipes at the main because it was not requirement at the time.
- The upcoming work is different in nature: The level of intervention now required involves a much more labour-intensive process (street works, digging, isolation and capping at main). This is beyond the scope of what the original funding covered.
- Safety and compliance mandate: Funding this work is in consumers' interest because safety mandated work is executed to comply with relevant regulations and manage risk. The regulator in charge of public safety (HSE) has adjusted their interpretation of GS(I&U)R and deemed current industry practice as no longer compliant therefore changing the GDNs safety management for these situations.

It is important to note that GDNs did not deliberately under-deliver or misuse prior allowances – we followed prevailing regulations, industry practices and our own policies and procedures. The HSE's revised guidance essentially creates a step-change in required outcome. We consider this situation to fit the purpose of a re-opener (or similar allowance mechanism), which is intended to deal with significant unforeseeable obligations or costs that arise within a price control period.

Recommendation for RIIO-GD3 Funding of Safety Disconnections

To ensure clarity and to avoid unfair burden on consumers, we recommend the following approach in RIIO-GD3:

- Prospective Costs: Adjust the baseline allowances (or methodologies) so that going forward, all new required service disconnections are funded at the appropriate cost level that reflects a full permanent disconnection at the main. This ensures GDNs can comply with HSE's required method from day one of RIIO-GD3 without financial detriment.
  Legacy Remediation Costs: Introduce an uncertainty mechanism (re-opener) specifically for legacy GS(I&U)R disconnections. This mechanism could be triggered once HSE formally mandates remediation or by a certain date when the scope is clearer. It would allow GDNs to recover the efficient costs of the one-time programme to remediate past ECV-only disconnections. We would work with Ofgem to define the scope and cost benchmarks, and we remain accountable to carry out this work as cost-effectively as possible. Oversight measures or a volume driver could be instituted to protect consumers, ensuring they fund only the necessary and efficiently incurred expenditure.

This two-pronged approach means customers fund the new standard of work going forward (which is unavoidable for safety), and it also supports addressing legacy assets to meet revised interpretation of

standards. In both cases, consumers benefit from a safety compliant network and the cost is spread across all customers.

Conclusion

The GDNs accept and share Ofgem's desire to maintain high standards and value for money. We take on our safety responsibilities with the utmost seriousness. The situation with legacy service disconnections is an issue of a changed interpretation of regulatory compliance, rather than late delivery of previously agreed work. Acknowledging this distinction is important to ensure the right outcome for consumers.

By funding the remediation of legacy safety disconnections in RIIO-GD3, Ofgem would enable GDNs to promptly address the HSE position on GS(I&U)R interpretation which has shifted the GDNs from a position of compliance to non-compliance, without compromising other areas of service or financial stability. It aligns with the RIIO framework's intent to adapt to new innovation, information, and ensure networks can meet all statutory obligations.

GDNs are prepared to provide further evidence or collaborate on the mechanism design to ensure allowances granted are used efficiently and transparently for the sole purpose of resolving this issue.

Ultimately, our goal is to continue delivering a safe, reliable gas service to consumers at a fair cost. Addressing legacy safety disconnections with appropriate regulatory support is a necessary step toward that goal, and we trust that Ofgem will view this in the same light when finalising the RIIO-GD3 determinations.

GDQ26. Do you agree with the proposed design of the New Large Load Connections Re-opener, including our proposal to include general reinforcement projects in its scope?

We agree with the retention of the large load connections re-opener in RIIO-GD3. We note the statement in paragraphs 4.55 and 4.56 that the scope includes general reinforcement. We welcome this statement and will consider whether we think that the wording in the licence should explicitly state this and will comment accordingly in our response to the draft licence consultation.

GDQ27. Do you agree with our proposal to retain the RIIO-GD2 scope of the Specified Streetworks Costs Re-opener?

We agree with the proposal to retain the specified Streetworks cost re-opener in RIIO-GD3 but recommend updates are made. This is due to historical costs incurred post Business Plan submission where permit schemes are introduced before the price control period begins. This leaves us in a position where potential additional costs could not be factored into the Business Plan or then claimed for within a re-opener mechanism. We recommend an increase in traffic management costs are permitted through the reopener. At times, we encounter traffic management rule changes by the highway authority that require us to carry out work that we could not have foreseen and is therefore beyond our planned costs. This has happened within RIIO-GD2 year 4 RRP where our Streetworks costs are 38% higher than reported in the GD2 BPDTs, due to the cost pressures upon us by Highway Authorities.

We also require the following addition to the list of specific items, "Changes to waste disposal requirement such as amendment or removal of RPS211due to risk of future costs incurred that could not be included/forecasted within the Business Plan."

GD specific pass-through costs

GDQ28. Do you agree with our proposal to reject Cadent's proposed pass-through to facilitate biomethane connections?

We note Ofgem's proposal to introduce a Biomethane UIOLI allowance and we will work with Ofgem to make that proposal workable in practice (see our response to GDQ20).

GDQ29. Do you agree with our proposal to reject SGN's proposed pass-through for Joint Office of Gas Transporters services?

We disagree with Ofgem's proposal to reject the pass through, because the timing of the implementation of Code Manager was uncertain when the Business Plans were submitted - and is still uncertain.

It is important that the Joint Office is properly funded for:

1. Any work that Ofgem requires code administrators to do ahead of a gas code manager being appointed

2. For any Code Manager related costs that the Joint Office incurs.

GDQ30. Do you agree with our proposal to reject WWU's proposed pass-through for plant protection services?

WWU did not request pass through costs for plant protection.

UMs we propose to reject

GDQ31. Do you agree with our proposal to not introduce a CDS Re-opener and instead fund any resubmitted workloads through NARM, if approved?

Following the draft determinations, we are providing clearer inspection data for Complex Distribution Systems (CDS) sites as requested by Ofgem in:

- Appendix GDQ31A- Multiple Occupancy Buildings & Complex Distribution Systems
- Appendix GDQ31B- CDS Confirmed Population August 2025
- Appendix GDQ31C- CDS Sites Identified for Intervention

The data includes scope of work summaries, specific site details, site asset health scores, risk scores, action threshold, site prioritisation, cost breakdown and planned intervention - to justify inclusion in our workloads through NARM. This is providing we receive sufficient allowances to complete the necessary work.

However, if Ofgem does not allow us any CDS work in the final determinations due to a perceived lack of justification, it would be prudent to introduce the CDS Re-opener. We need to complete CDS work during RIIO-GD3 to ensure the continued safety and reliability of our service to consumers.

Cost of service

Summary

- We continue to support the use of a Totex Top-down cost assessment model
- We find material issues within the modelling suite which require remediation prior to FDs, in order to ensure fairness and consistency in application.
- Our Bespoke LTS pipelines should be Technically Assessed in the Cost Models, ensuring consistent treatment with other GDN Capex programmes and following precedent for equivalent pipelines in GD2.
- Cadent and NGN's unsupportable Repex Tier 1 lay diameter mix submissions are having a materially negative impact on Cost benchmarking.
- There is compelling evidence that Sparsity must be extended to cover a wider range of work activities, now including Repex, Maintenance and Facilities costs.
- Repex complexity factors need to be accounted for where the data is already available – the "Open Cut" technique, and working on Ductile Iron mains
- Critical NIS related costs across our BP have been disallowed or left in the regression models. There is clear justification to assess these costs separately to ensure sufficient funding is available.

GDQ32. Do you agree with our proposed use of a 'top-down' regression model?

Yes, we continue to support the use of a top-down Totex model. However, we have proposed options to improve the modelling which have not yet been taken into account – these are detailed in GDQ33 to GDQ36 below.

Pre-modelling normalisations and adjustments

GDQ33. Do you agree with our assessment approach for IT&T?

While we have ongoing questions on disallowed costs (see GD36) which we expect to clarify with the Ofgem cyber team over the coming months, overall we support Ofgem's technical assessment process for Cyber Resilience. We consider that this approach, which takes into account individual threats, circumstances and resilience requirements of each GDN, is the most cost-effective way to provide GDNs with the necessary funding and achieve the required outcomes for consumers.

However, we do not agree with Ofgem's assessment approach for IT&T and Data & Digitalisation (D&D). We have concerns that placing normalised IT&T costs (after removing disallowed IT&T Capex projects) and D&D costs within the regressions does not sufficiently take into account a number of important factors, leading to inappropriate funding allocations and a high risk of insufficient funding for CAF-driven work. Our concerns are set out in more detail below.

IT&T

1. Cyber and IT&T are interconnected and interdependent on each other. We need to increase our IT&T investment to meet and maintain CAF enhanced profile; in addition to maintaining adequate and proportionate security against increased threats. To a large degree our IT&T cost increases are driven by the need to respond appropriately and proportionately to externally driven cyber

threats. Further information on this can be found in Appendix GDQ33A - 'Funding Critical NIS related spend' report (WWU, August 2025)

2. Ofgem has already separately assessed large elements of our plan. Significant increases and the resulting step-change in ongoing operating costs through RIIO-GD2 has already been allowed through technical assessment (i.e. Full Time Equivalents (FTEs) and systems); either within the RIIO-GD2 Business Plan or through one of many reopeners within the RIIO-GD2 price control. Thus, Ofgem have already opined on the efficient nature of these structures, systems and overall costs based on the individual requirements of our network; to then regress these costs alongside other GDNs directly contradicts this position and serves to lower our allowances.

3. IT&T is also a clear area where economies of scale can be leveraged by other GDNs, yet Ofgem does not take into consideration group buying power within costs assessment. In our Business Plan and supporting annexes we raised the impact of group functions providing advantages to those GDNs with scale and purchasing power and therefore disadvantages us.

D&D

4. Ofgem has changed its approach to D&D from GD2 where it was technically assessed through re-openers. We consider that the variations in costs across GDNs are not well represented by the regression model cost drivers, and the spend remains relatively new to the GDNs with very little outturn cost and predominantly forecast cost. This makes D&D costs unsuitable for regression analysis in GD3. Additionally, by keeping D&D costs in the regressions (post-exclusions) it also does not account for the economies of scale assessment, which contrasts notably with the approach taken for the Cyber assessment without, in our view, a good reason for the difference in approach.

In our view, Ofgem should remove the IT&T and D&D costs from the regressions and instead revert to a technical assessment-based approach, continuing the robust approach that has been applied for cyber resilience and which worked well in GD2.

Recent bi-lateral engagement

We recognise that the BPDT templates make it difficult for the Ofgem team to identify IT&T Opex and IT&T Capex Projects which are required to meet Cyber Assessment Framework – Enhanced Profile (CAF-EP). We have undertaken a full review of all spend to isolate those costs across our plan where the primary driver of cost is compliance with cyber resilience requirements – this includes IT&T Opex and capex.

We presented this in a recent bi-lateral, and include a report on this review appended to this document (please see Appendix GDQ33A - 'Funding Critical NIS related spend' report (WWU, August 2025) and our response to GDQ36). We look forward to working with Ofgem to overcome these challenges and provide the necessary further clarification that Ofgem's cyber and IT&T teams need to achieve a better result for consumers. We would expect this evidence to be considered as it will be provided within a reasonable time to inform the final determinations.

Finally, Data & Digitalisation (D&D) should not be included in regression models. Within RIIO-GD2 D&D was separately assessed through re-openers. It has been technically assessed by experts and is based on the specific requirements of each GDN. The variations in costs across GDNs are not well represented by the regression model cost drivers, and the spend is relatively new to the GDNs with very little outturn cost and predominantly forecast cost. By keeping D&D costs in the regressions (post-exclusions) it does not account for the economies of scale assessment as is correctly applied within the Cyber assessment. Given

all these factors, it is incorrect for Ofgem to then leave this cost within the Regression models and Ofgem is required to reconsider this position.

GDQ34. Do you think we should make any amendments to the assessment framework or the thresholds employed?

We agree with Ofgem's assessment approach mechanistically but raise two concerns.

1. There was a lack of prior consultation on the approach as part of the RIIO-GD3 method statement. Prior consultation would have allowed us to submit projects in a format suited to being more easily and accurately assessed by Ofgem's consultants, improving the quality of the assessment (NB: Ofgem's consultants have raised this concern in their report of their assessment of WWU projects[26]).

2. As prior consultation did not happen, we have a considerable number of questions about how the framework was applied to us specifically, and to its application to other GDNs. These questions include:

- Seeking clarity on the work Atkins did to assess WWU IT capex projects >£0.5m where information shared to date has highlighted errors and omission
- Uncertainty over how allowances have been calculated on the basis of the Atkins review
- Uncertainty over how and why allowances have been applied or not applied to projects not assessed or projects <£0.5m in value
- Why less than 80% of IT capex projects put forward in our Business Plan were assessed compared to nearer 100% for other GDNs

While we have raised these questions under the Draft Determination Question (DDQ) process the responses provided did not wholly clarify our understanding of Ofgem's (or Atkins') application of the framework.

As per GDQ33, we have recently had helpful and constructive bi-lateral engagement with the Ofgem Cost Assessment team which has clarified the omissions and errors in the assessment for DDs. We are also pleased to see upcoming engagement has been arranged between Atkins, GDNs and Ofgem to ensure that the issues raised with the assessment process can be resolved.

Given the issues in the initial DD assessment which lead to material variances in GDN allowances, we hope to work collaboratively and at pace with Atkins and Ofgem over the coming months so that a robust position can be reached by FD.

GDQ35. Should any cost categories be included or excluded from the assessment?

Please see GDQ33. for changes relating to IT&T.

Please see GDQ36 for changes to exclusions.

[26] Ofgem IT&T cost assessment- final report, p4

GDQ36. Do you agree with our proposed approach to pre-modelling normalisations and adjustments?

In this response we cover each of the following:

1. Regional factors
2. Company specific factors
3. Cost and workload adjustments
4. Other normalisation adjustments

1. Regional Factors

Regional labour

Overall, we continue to support the methodology proposed at DDs, being the continuation of the RIIO-GD2 approach of using ONS available regional wage variations. However, there is clear evidence that changes are required to enable a more accurate and representative adjustment. We comment on each area below.

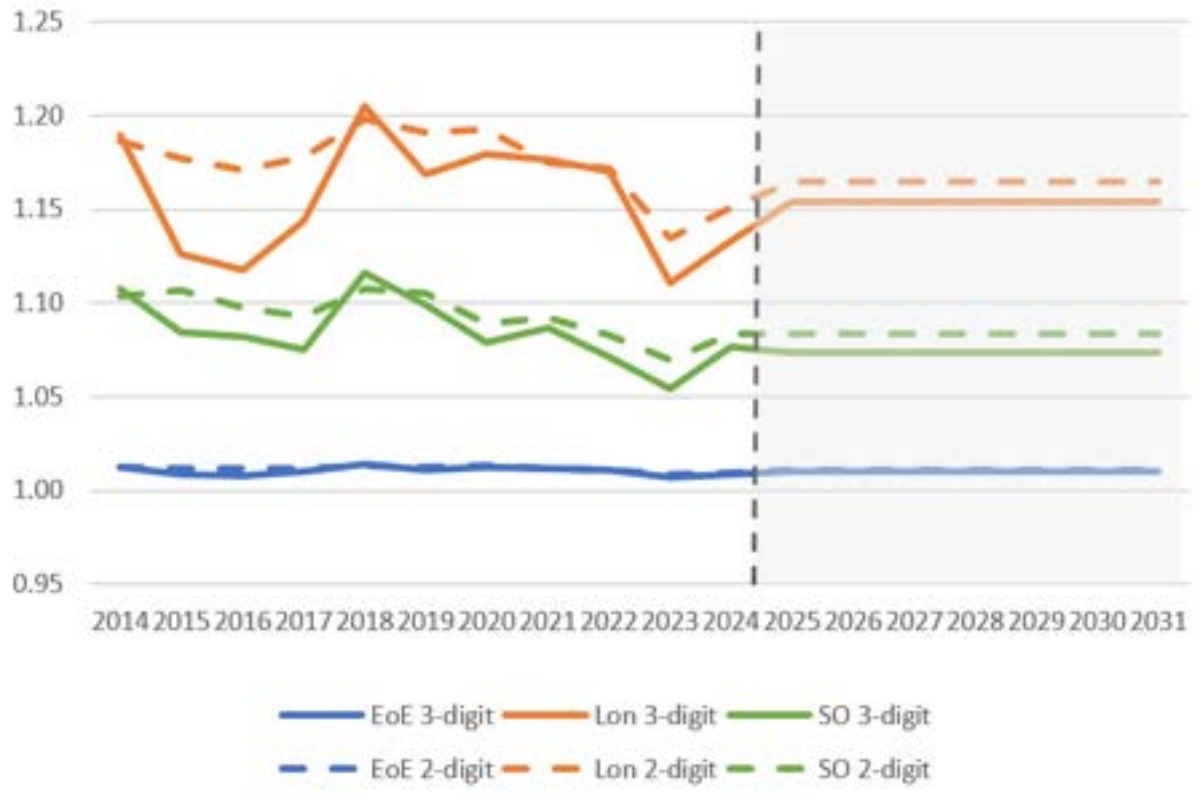
On data source, as presented alongside our Business Plan and representations made in CAWGs and bilateral meetings with Ofgem since, the calculation would be more accurate and representative of the regional wage differences by using three-digit Standard Occupational Classification (SOC) categories. We find the current two-digit SOC methodology results in inaccurate adjustments, as it includes too many occupations that are irrelevant to the gas distribution sector. For example, due to its higher level of aggregation at the two-digit levels, Ofgem's current approach results in the inclusion of 90 three-digit SOC10 occupations, of which only 39 (or 43%) are relevant to GDN activities. The same is true for the updated SOC20 data, where only 55 (or 53%) of the 104 three-digit occupations aggregated into the two-digit index are relevant to the sector. By including unrelated occupations related to healthcare, teaching, veterinary services, agriculture, sales and public services at the three digit level, it results in a distorted regional wage adjustment at the two-digit level.

This more granular three-digit approach we proposed would better capture actual GDN occupations and be more representative of real GDN wage differences. Please refer to Oxera's regional wages paper as submitted alongside our Business Plan (including a simple imputation method for the less than 1% of observations by FTE weighting that are missing)[27]. As presented in recent CAWGs and bilateral meetings with Ofgem, it would result in a consistently lower regional wage index up to 2024 – as below.[28] This is key, as it is the historical data up to 2024 that Ofgem uses to forecast the index for the RIIO-GD3 benchmarking period (shown in the shaded areas below).

[27] Oxera (2024), 'Regional factors for RIIO-GD3: Regional wages. Prepared for Wales & West Utilities', 22 November. Updated analysis presented to Ofgem at CAWG 22 on 12 August 2025 shows that only 0.28% of observations, weighted by the GDN sectors FTEs, are missing in the more SOC20 data over 2021 to 2024.

[28] We note that Cadent presented a more extreme version of this figure during CAWG 22, where missing 3-digit wages were left blank. We note that only replacing two missing SOC10 observations – for SOC10 code 521 (Metal Forming, Welding and Related Trades) for London in 2014 and 2019 – would already revert the wage trends to be materially the same as the one shown here. Note that this imputation of missing values can be done by any reasonable approach, for example based on the method suggested by Oxera, or Ofgem's standard imputation approach at the two-digit level (replacing a missing observations by the average of the preceding and following year for that same region).

Figure 2 Two- vs three-digit regional wage per GDN



On the period of historical data, we continue to be concerned that a long-term average, which includes COVID and pre-COVID years, would artificially inflate the wage adjustment. Ofgem should consider the materiality of the difference in pre and post COVID wage differences, considering the change in working behaviour that has followed. That is, whether considering the two- or three-digit-level regional wage, there is a clear convergence in the relative wages across the sector – as shown below. Despite the slight uptick in the regional wage index again in 2024, there is still a convergence downward trend.

A shorter, more recent historical average period for GD3 forecasts would also avoid the same over-compensation for GDNs operating in the London and South-East area that has happened at GD2.[29]

[29] See Oxera (2024), 'Regional factors for RIIO-GD3: Regional wages. Prepared for Wales & West Utilities', 22 November, p.2.

Figure 3 London GDNs downward relative wage trend under alternative indices

2024 data update: We note that, at DDs, the 2024 wage data was based on an historical period average estimate, instead of actual 2024 data, which was materially higher than the provisional Office of National Statistics (ONS) data. For example, this resulted in a regional wage index for Cadent's London network of 1.18, instead of the 1.15 implied by the ONS data. This also artificially inflated the forecast period index for 2025–31 (which is currently still based on the preceding five year average).

The final 2024 (and 2025 provisional) data is thus a key year to determine the appropriate trend and so forecast for the GD3 benchmarking period. As the Ofgem cost team and GDNs agreed at CAWG 21 (23rd July 2025), the 2024 provisional ONS data should thus be updated with the revised, final data before final determinations (with the updated ONS data released in October/November each year). We note that 2025 data should also be considered, to the extent available.

On separate contractor adjustments, we agree with Ofgem's evaluation[30]; applying a specific uplift adjustment which provides additional allowance to a GDN with a separate contractor model would reward a company specific workforce model. This would go against Ofgem's wider policy of basing determinations on the notional company. Decisions on operating model and regional workforce resilience have historically been a GDN decision. For example, Ofgem will recognise that WWU have insourced the management of the mains replacement programme alongside a significant part of the workforce for both cost efficiency and workforce resilience reasons. Yet, we are not explicitly compensated for the efficiencies this delivers (i.e. we do not receive any explicit adjustment or reward for insourcing, bar being more efficient than we would have otherwise been). Rewarding another GDN for outsourcing all its activities would reward a specific operating model, against the backdrop of the GDN proposing the adjustment having under-delivered against its HSE tier 1 mandated programme over RIIO-GD2.

[30] RIIO-GD3 Draft Determinations – Gas Distribution, 5.86 – 5.88

Urbanity

We agree with Ofgem's evaluation of the urbanity adjustment[31]; and support its conclusion that the current methodology is robust and does not require a fundamental change. We also agree with its conclusions on proposed adjustments to the existing methodology.

In addition, and related to equitable treatment across GDNs, in the sparsity section below we explain that there is a disconnect between the cost categories on which urbanity and sparsity adjustments are applied. We would expect urbanity and sparsity adjustments to by symmetrical (i.e. U-shaped) on most cost categories (except those where there is a clear operational rationale for only sparsity or urbanity impacts). For example, it is counter-intuitive and contrary to operational insight the emergency and repair costs (correctly) have both sparsity and urbanity adjustments, while REPEX and maintenance (unjustifiably) only have urbanity adjustments.[32] We therefore propose expanding the cost sparsity adjustment in line with our BP submission and evidence.

Sparsity

In our Business Plan and accompanying Oxera report[33] we showed the impact of sparsity across several cost areas – providing both operational (travel time, increased FTE cost, etc.) and top-down, industry-wide evidence across areas including emergency, repairs, mains replacement (REPEX), maintenance and depots (under property management).

In response to this, in its draft determinations (and CAWG 21 presentation) Ofgem has requested the following evidence, on an interlinked basis, "to create a fully coherent regional adjustment proposal"[34]:

- **The threshold** for a local authority district (LAD) to be considered sparse (currently the GB average)
- **The cost activities** to be adjusted (currently emergency and repairs, only)
- **The scale of the adjustment** (currently 13% of emergency and repair labour costs for WWU based on evidence from before GD1)

We have responded to each of these points and others[35] raised by Ofgem in bilateral meetings, the contents of which are captured in detail in the follow-on Oxera report accompanying this consultation response.[36] However, we summarise the main points from these below.

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[31] RIIO-GD3 Draft Determinations – Gas Distribution, 5.100 – 5.109

[32] Other costs that only have urbanity adjustments at the GD3 draft determinations are connections, mains reinforcement and other direct activities (ODA). While at least the former also have sparsity costs associated with it, these are not as material. Instead, we have made the case for a similar one-sided adjustment for property management costs, to account the increased efficient depot and logistic costs that a sparse network like WWU incur to efficiently conduct activities in the far reaches of our network.

[33] Oxera (2024), 'Regional factors for RIIO-GD3: sparsity. Prepared for Wales & West Utilities', 22 November.

[34] RIIO-GD3 Draft Determinations – Gas Distribution, 5.113.

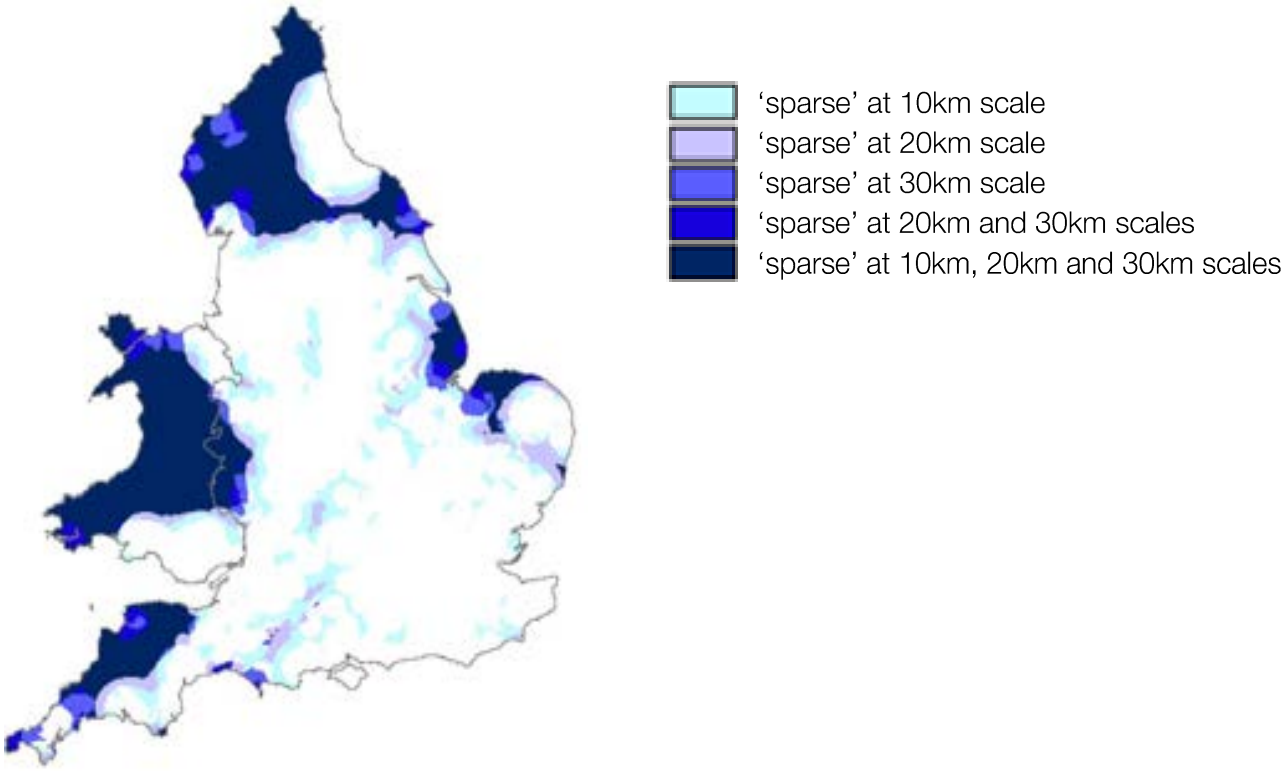
[35] For example, whether the top-down U-shapes on REPEX and maintenance shown in our BP (based on pre-BPDT data) is driven by sparse networks, why Cadent does not cite sparsity impacts for REPEX and other areas like facilities / depots (as we do), and whether our comparison of depots/facilities costs to the West Midlands GDN should not account for scale differences. RIIO-GD3 Draft Determinations – Gas Distribution, 5.117-5.118.

[36] Appendix GDQ36A - Oxera (2025) ' RIIO-GD3 draft determinations: sparsity follow-on report'

On the threshold, we have shown that Ofgem's currently population-density based measure only covers one element of what an appropriate sparsity measure should provide for (namely, the number of people in an area). It is thus, at best, a proxy measure for 'true' sparsity, as it does not consider distances to urban centres, or hubs, where depots are and our staff/operatives need to drive from to go and conduct activities (be it emergency, repair, mains replacement or maintenance) in the remote parts of our network. That is, in short, Ofgem's measure does not capture drive times from hubs, or 'remoteness'.

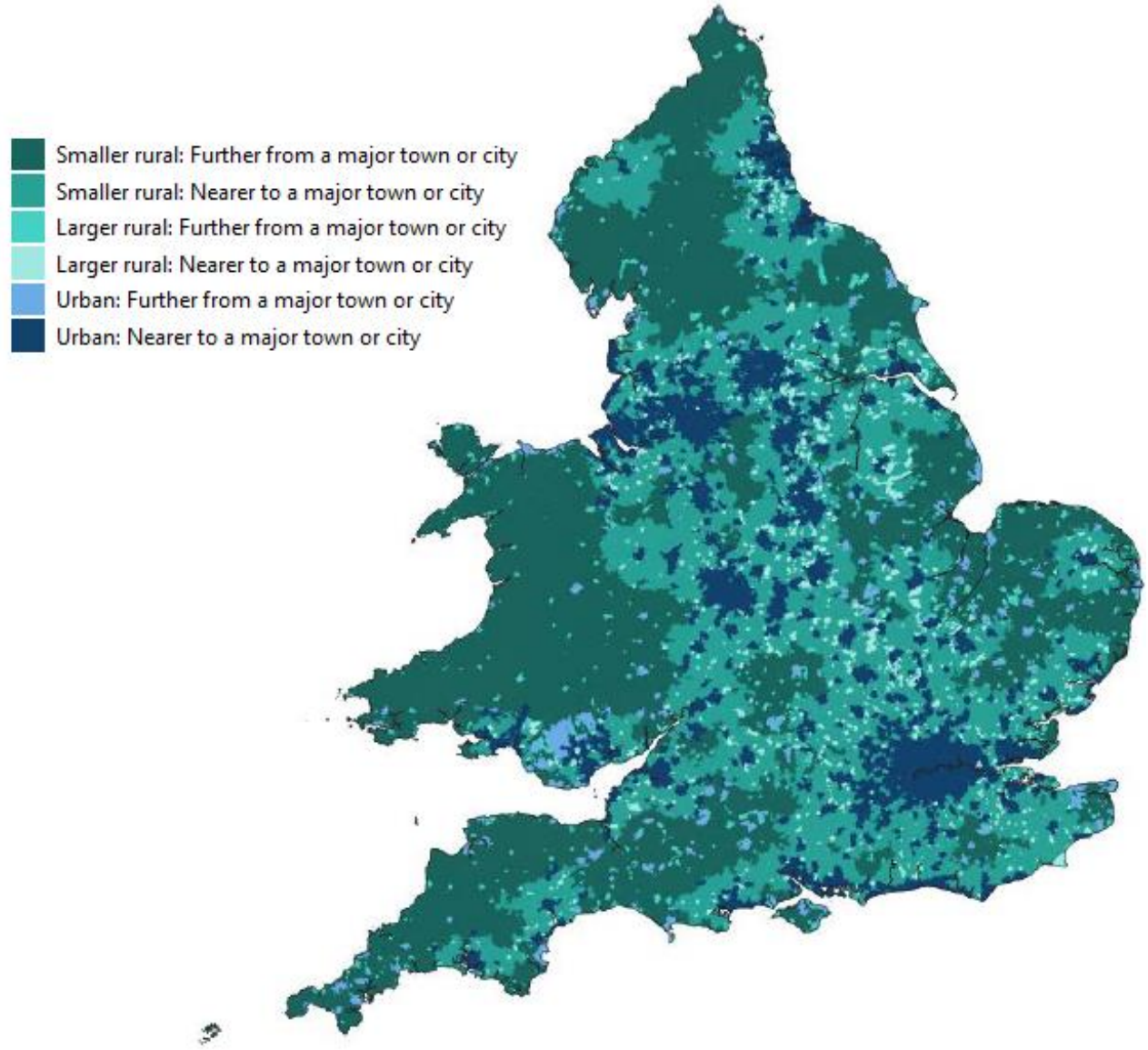
With the aim of proposing a more appropriate measure, we have investigated alternative measures of 'true' sparsity for England and Wales, like the ONS's 2013 sparsity measure[37] and updated 2025 rural/urban classification[38] (which also captures relative access of population centres[39]). These are shown on the left and right maps below, respectively. These metrics capture sparsity in terms of both (i) population density and (ii) 'remoteness' / relative access to population centres, and at a more granular level than Ofgem's current LAD-level metric. From both these figures, it is clear that Wales and the South West of England are outliers in terms of their relative sparsity, followed by Northern England and (by some distance) some parts of the East of England.

Figure 4 Sparse areas based on the ONS (2013) sparsity



[37] ONS (2013), 'Urban and Rural Area Definitions for Policy Purposes in England and Wales: Methodology (v1.0)', 28 August.
[38] ONS (2025), 'The 2021 Rural Urban Classification of Statistical Geographies, England and Wales', March.
[39] These measures are based on census data for 2011 and 2021 respectively. Relative access in the updated 2025 measure classifies an output area as 'further away' if it is more than 30 minutes away, based on actual commuting times, from a large town or small city with at least 75,000 inhabitants.

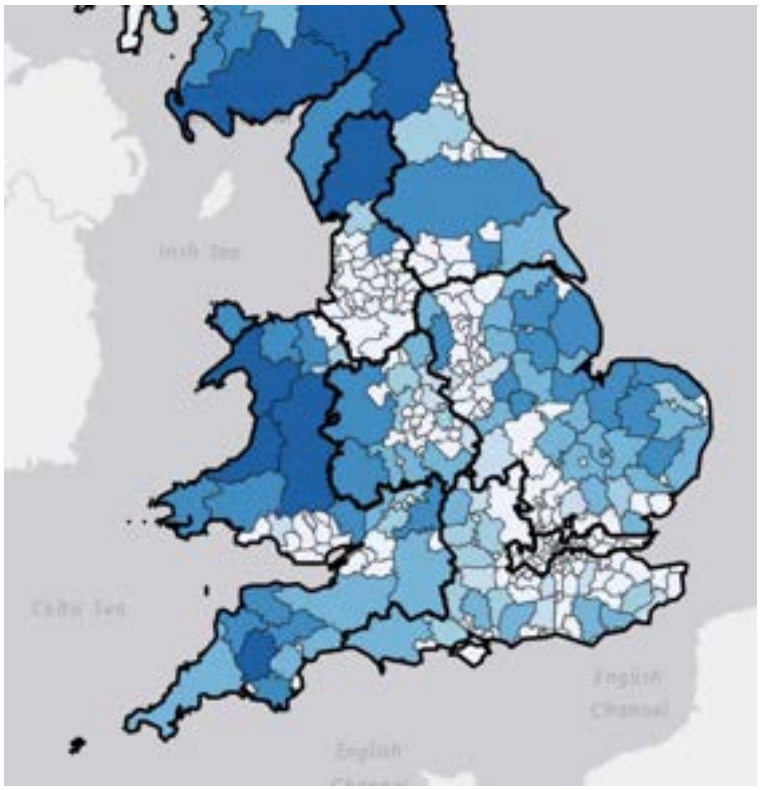
Figure 5 Sparse areas based on the ONS rural/urban classification mapping (2025)



These stand in sharp contrast to Ofgem's current population density (only) based sparsity measure that classifies all areas with a population density below the GB-average as 'sparse' – as shown below (along with the respective GDN area outlines). Note that this measure would inappropriately classify several areas near major cities and population centres as 'sparse', even if they are within a short drive from urban centra.[40]

[40] For example, Cadent has claimed that Essex, Bedfordshire and Hertfordshire (areas under the EoE GDN, just north of Lon) should receive similar regional wage adjustment to the London – due to their proximity to London. Several LADs of these three areas are currently classified as 'sparse' under Ofgem's current threshold.

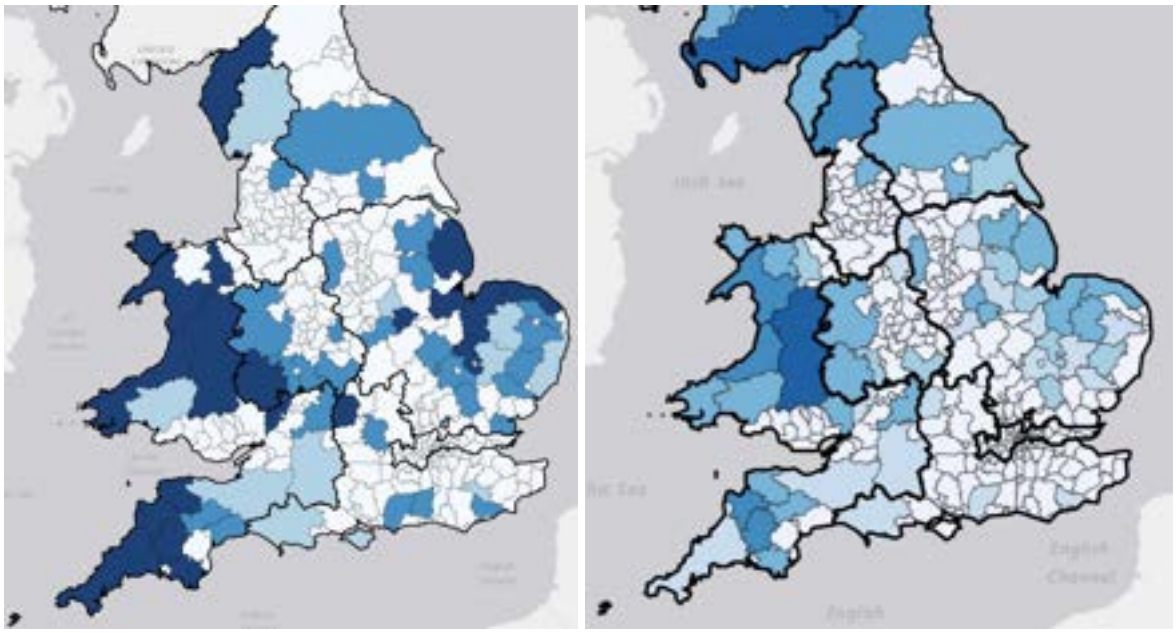
Figure 6' Sparse' areas according to Ofgem's current metric (GB-average population density threshold, 2024)



If consistent data were available to construct a sparsity index based on the equivalent of the ONS sparsity or rural/urban datasets across England, Wales, and Scotland, and at a more granular level, that would have been our preferred metric. However, given that consistent underlying data is not available for Scotland, **as a practical solution, we have proposed that Ofgem's current population density-based LAD-level metric at least be improved by tightening the threshold** of what is considered as 'sparse'. We have considered several potential thresholds, and consider that the upper-quartile (or 25th percentile, UQ) of lowest population density be considered as the threshold. This provides the closest proxy to what would be classified as sparse areas based on the most rural and/or remote classifications in the ONS (2025) LAD-level urban/rural classifications[41] – as shown below (with the ONS figure on the left and our proposed UQ proxy measure on the right).

[41] That is, the ONS' two 'majority rural' classified areas (both those areas with the majority of the populations closer and further away from a major town or city), as well as the intermediate rural, but with the majority further away from a major town or city, classifications. See figure 2 in ONS (2025), 'The 2021 Rural Urban Classification of Statistical Geographies, England and Wales', p. 8.

Figure 7 Comparing the ONS (2025) sparsity metric with our proposed UQ population density proxy (2024)

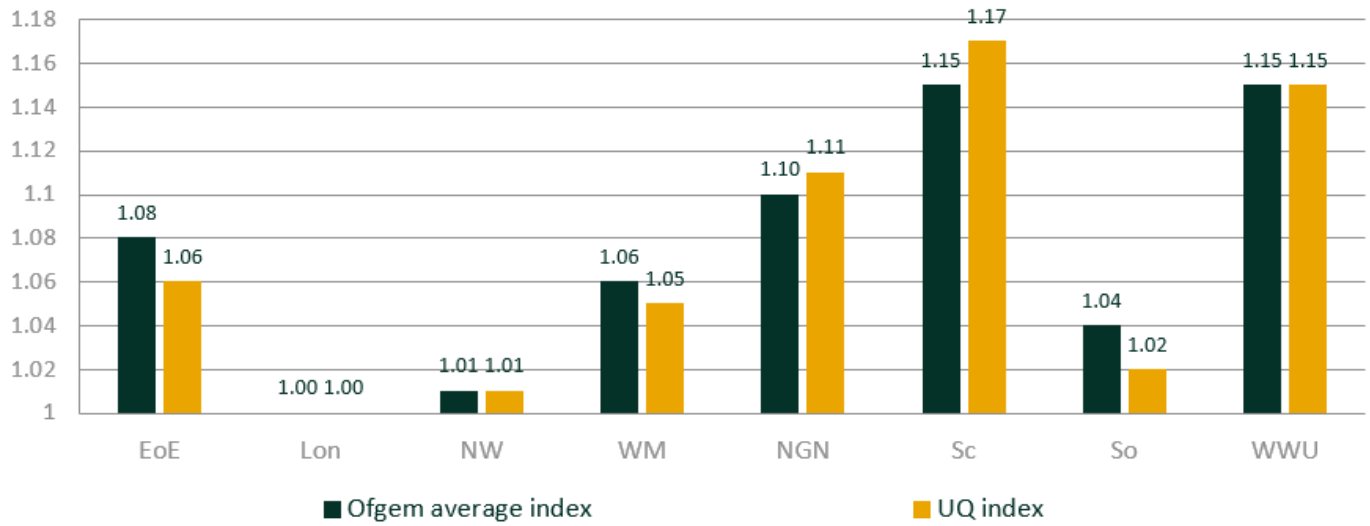


On Ofgem's questions around the potential connections between the size of the cost adjustments and the sparsity threshold chosen, we note that the selection of the sparsity threshold has no impact on our bottom-up cost impact estimate. These were based on the cost of doing work in the subset of our four sparsest and remote patches (North Wales, West Wales, Cornwall and Taunton). These are the extremes of our network and are sparse under any threshold or measure we have considered above.

The threshold only serves to scale the size of other GDNs' adjustments relative to WWU[42] more appropriately, based on a better proxy of their 'true' sparsity, as we show below. The aggregate results make intuitive sense, in that GDNs with larger urbanity and regional wage adjustments (e.g. Southern, East of England) receive a smaller sparsity index, and GDNs with more truly remote, sparse areas to service (NGN and Sc) have higher index values.

[42] Note that as long as a 13% maximum adjustment based on WWU is used, WWU always has an index score of c. 1.15 by construction. That follows from the index formula: (1-max adjustment, %)/(GDN sparsity/WWU sparsity).

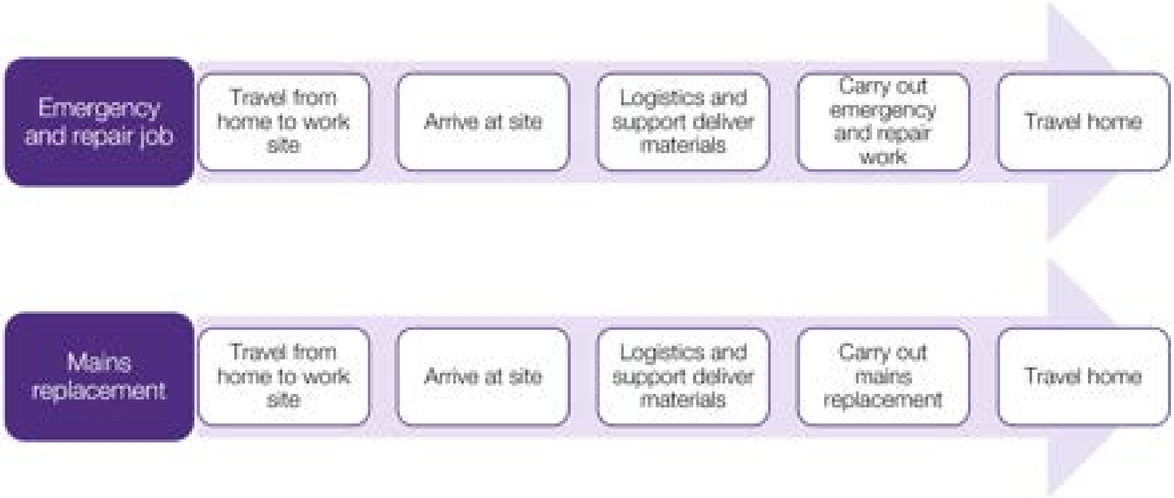
Figure 8 GDN-level sparsity index under Ofgem current average vs our proposed UQ threshold



On the relevant cost activities, we reiterate the evidence provided in our Business Plan, that the sparsity adjustment should apply to all the following areas: emergency, repairs, REPEX, maintenance and depot costs (under property management).

While we acknowledge that emergency and repairs are more reactive (i.e. we are more limited in terms of how much we plan for them and thus optimise across our large, sparsely populated network), our REPEX and maintenance operatives have the exact same daily work routines (as shown below). Given that we have already optimised our network in terms of where we place our depots, and where operatives are located (e.g. insourced vs outsourced), these operatives are still affected by the exact same underlying sparsity factors that we have no control over as a network: they have longer drive times to depots, tipping points and between jobs (i.e. are less productive). We thus also need to spend more on fuel and depots, and in cases also send out separate teams in shifts where the work used to be done by a single operative/team (due to the 12h fatigue management regulations). These are also the factors on which we have based the quantification of the additional cost of operating in these sparse, more remote areas of our network (discussed below, with respect to the size of the adjustment for each cost activity).

Figure 9 Similarity in the daily activities of emergency, repair and mains replacement operatives



[redacted]

[redacted]

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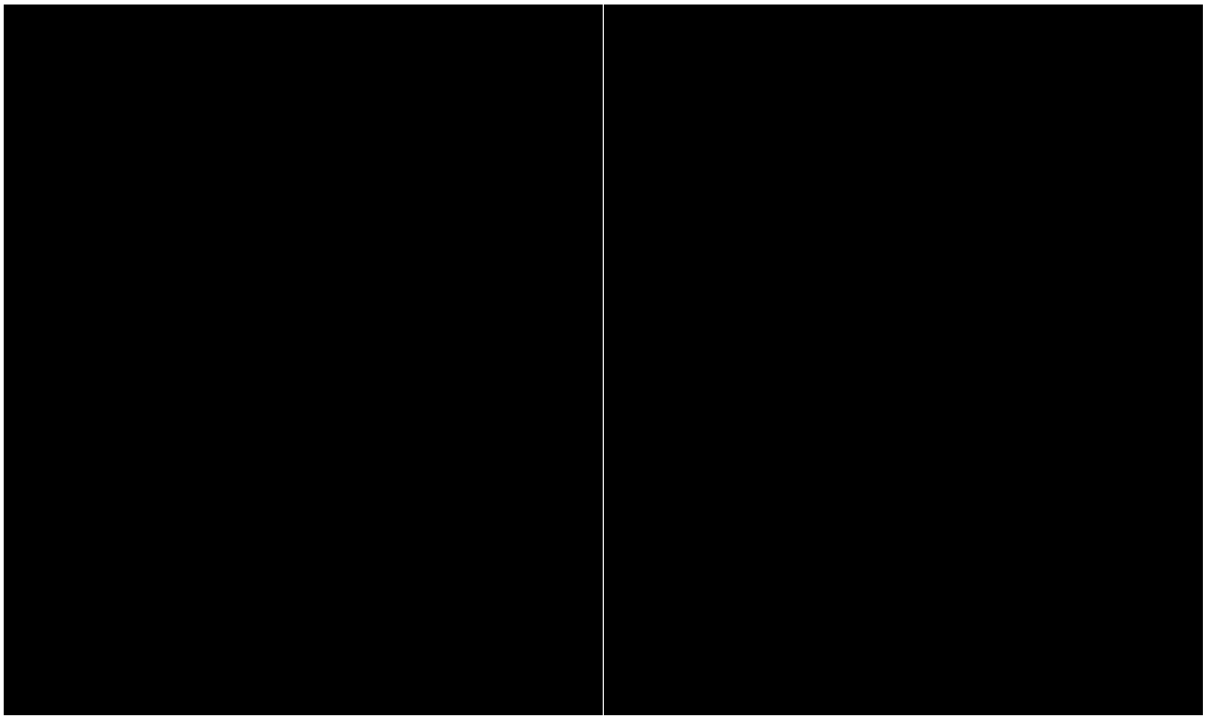
Figure 10 Comparing the ONS (2025) sparsity metric relative vs REPEX workload tender prices per metre



As shown in the follow-on Oxera report, there is a clear U-shape on sparsity when added as an additional cost driver to the REPEX and maintenance disaggregated model.[44] The REPEX-level results (based on the regression estimated over Ofgem's full modelling period) clearly show that the U-shape is not driven by 'dense' GDNs. Note that the costs below are also pre-regional factor adjustments (but post other exclusions). This means that the relatively high Repex predicted costs for the notional GDN with low levels of sparsity, like London and Southern, would still receive a downward adjustment for regional wages and urbanity. In contrast, the higher predicted costs for the notional GDN with levels of sparsity similar to WWU or Scotland would receive no equivalent adjustment, as things stand.

With reference to the follow-on Oxera report, we note that there is a still a similar U-shape on maintenance at the industry level (though, admittedly, less precisely estimated – given that the maintenance disaggregated model does not perform as well).

[44] That is, when added as sparsity and sparsity-squared terms based on the UQ-threshold sparsity metric – consistent with our broader submission. We also note that the similar results would hold under different sensitivities tested by Oxera, as discussed in the Oxera follow-on report. Appendix GDQ36A - Oxera (2025) ' RIIO-GD3 draft determinations: sparsity follow-on report'

Figure 11 Top-down sparsity impact estimates REPEX for the notional average GDN

With respect to Cadent's comments on the impact of sparsity REPEX and property management costs, we note that Cadent did not argue that there is no sparsity impact on these cost activities per se. Instead, Cadent acknowledged that these would be captured within their external contractor costs and that they already get a regional wage adjustment for this, as follows:

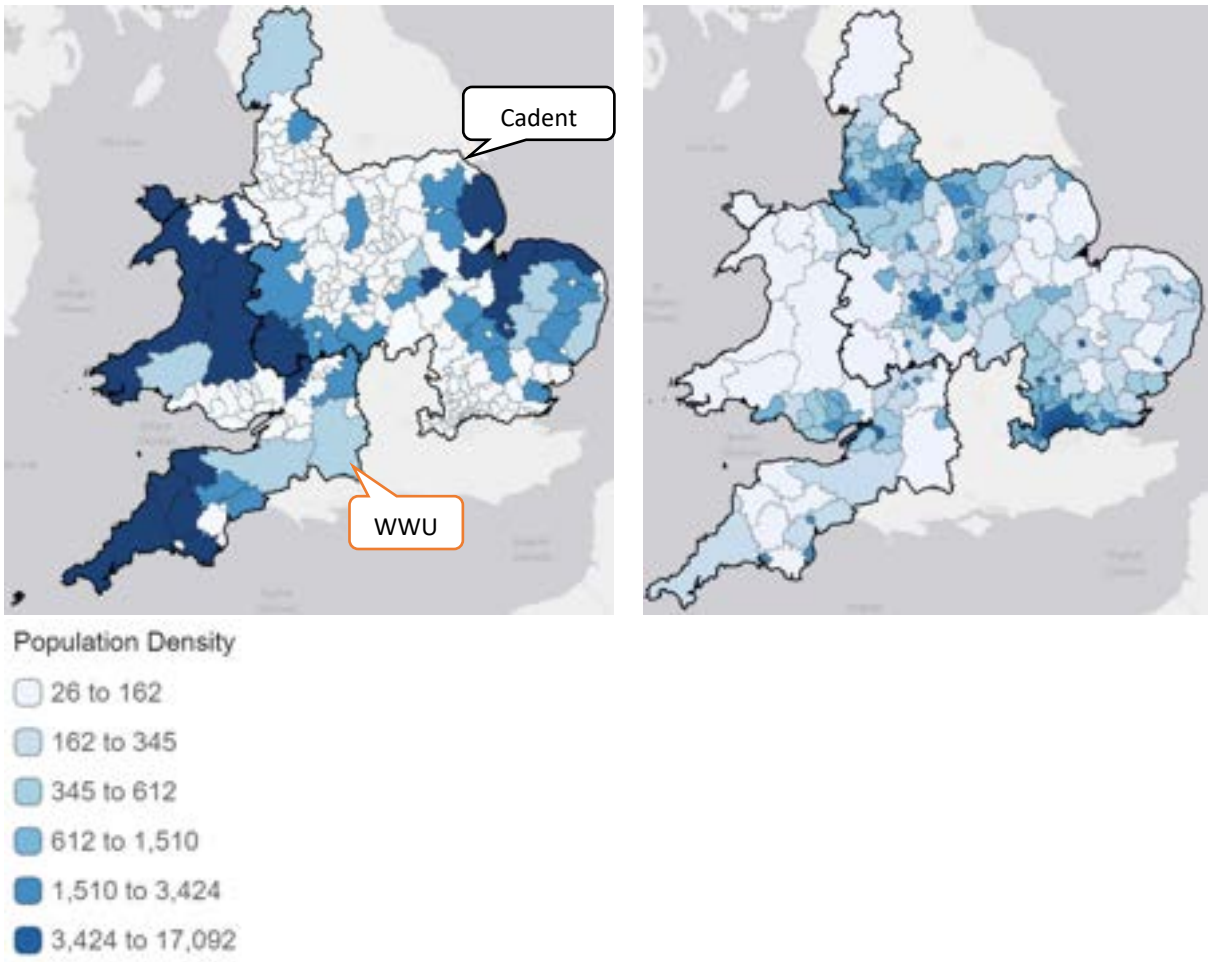
"We also assessed the potential for sparsity to drive incremental property and mains replacement costs, but found no evidence of these effects, or any evidence that they should not be captured by other regional and company-specific factor adjustments. ***For example, while mains replacement contractors may be required to travel longer distances and be paid premia for working in sparse areas, these should be captured in contractor rates which would be adjusted implicitly through the Labour Costs factor,*** *and the relative wage difference between the area in and around London and elsewhere in GB."*[45] *– emphasis added*

However, unlike Cadent, we (i) do not receive a regional wage adjustment and (ii) have insourced most of our mains replacement operatives. Compared to other GDNs, that have wholly outsourced models, we therefore directly pay for, and have direct visibility of, the travel time, lost productivity, fuel, depot and other costs involved in doing mains replacements in the far-flung corners of our network.

[45] Cadent (2024), 'Cadent RIIO-3 Business Plan. Appendix 3', p.71

More generally, we note that Cadent commenting on the scale and scope of the impact of extreme sparsity (based on the relative sparse and remote areas in its networks) would be equivalent to us estimating the cost impact of extreme density/urbanity based on our workloads in Bristol. We illustrate this based on the relative sparsity of our own network and Cadent's network; based on the ONS (2025) rural/urban classification data (on the left), and the ONS population density data per LAD, as contained in Ofgem's regional factor file (on the right).

Figure 12 Comparing the ONS rural urban classification data vs ONS population date per LAD



On the scale of the adjustments, the table on the next page explicitly outlines what the updated value of the historical 13%[46] maximum labour cost adjustment would be, for each cost area, based on our Business Plan submission. These adjustments can therefore be applied directly to create a separate index for each cost activity below and be applied to the labour component of each cost, as Ofgem currently does for emergency and repairs.

[46] Based on WWU GD1 data for emergency costs, extended to repair as well.

Table 10 Labour adjustments

	Emergency	Repair	REPEX	Maintenance
GD3 total submitted costs (£m)	66.27	70.65	876.81	122.23
GD3 labour share %*	88%	39%	45%	66%
GD3 labour-adjusted total submitted costs (£m)	58.14	27.87	391.38	80.91
Sparsity cost impact (BP submission, £m)	15.3	5.5	29.2	3.7
WWU adjustment implied (as % of implied labour cost)	**26.3%**	**19.7%**	**7.5%**	**4.6%**

Note that the updated estimates for emergency and repair account for the increased costs resulting from fatigue regulations (introduced early in RIIO-GD2), further exacerbating the cost differential of carrying out work in the sparse areas of our network. We note that Ofgem has left RIIO-GD3 fatigue costs in the model for all GDNs[47], such that these updated percentage adjustments would account for fatigue on a forward-looking basis.

We note that Cadent's estimates also suggest that the historical 13% maximum adjustment for emergency and repairs is too low. Cadent has also estimated the costs of sparsity among its networks, totalling £18.53m across EoE, WM and NW.[48] This is more than Ofgem's current 13% maximum adjustment and index based on Ofgem's average sparsity threshold would imply (£16.38m[49]), and much more than our suggested UQ threshold index would suggest based on the same calculation (£15.03m). However, as noted above, these are at most the impact estimated for 'medium' sparsity networks.

For REPEX, we have calculated the incremental cost of doing work in sparse areas using actual drive times (based on Google analytics and postcode data), as detailed in our Business Plan. As is to be expected, the cost impact on REPEX is less in relative terms than for the reactive emergency and repairs activities, but still material and large in absolute terms. Oxera has also stress-tested this estimate against (i) the partial cost impact that would be implied by our tender data when comparing sparse and non-sparse patches and (ii) the industry-wide, top-down sparsity impact estimates for the notional GDN. These estimates confirm that our bottom-up estimate is a robust, lower bound estimate for the cost impact of sparsity on our network.[50]

[47] Ofgem only excludes historical fatigue costs, which are less relevant to the forward-looking benchmarking.
[48] Cadent (2024), 'Cadent RIIO-3 Business Plan. Annex 3', p.72.
[49] Based on the sparsity adjustment as calculated in the relevant normalisation files for Cadent GDNs, as in Ofgem's ICM model files.
[50] Appendix GDQ36A - Oxera (2025) ' RIIO-GD3 draft determinations: sparsity follow-on report'

Finally, in response to Ofgem's challenge in the Draft Determination document[51], we have recalculated our incremental depot costs relative to the WM GDN accounting for relative differences in scale. Based on customers served, WWU is 1.3 times the size of West Midlands (WM).[52] On this basis, the table below recalculates our initial quantification of the incremental depot and drop off point costs that we need to incur due to sparsity - which we now estimate as £6.9m over RIIO-GD3. Note that this would require an adjustment to total property management costs (not the labour component), and based on our quantification of these, should only apply proportionately for GDNs with greater levels of sparsity than WM.

Table 11 Scale adjusted property management adjustment

Type of depot	WWU No.	WM (WWU scaled)	Variance No.	Cost £k	P.a. £m	5 year £m
Main depots	13	3.9	9.1	145	1.3	6.6
Drop off points	12	10.4	1.6	41	0.1	0.4
Total	27	14.3	10.7		1.4	6.9

In summary, we are asking Ofgem to make the following sparsity pre-model adjustment per area (all based on an UQ sparsity threshold):

- 19.7% of our emergency and repair labour costs (our lower bound estimate)
- 7.5% of our Repex labour costs
- 4.6% of our maintenance labour costs
- £6.9m to our *total* property management costs.

The following are the impact:

	Baseline (ICM)	Remedy	Net allowance var. £m
EoE	0.96	0.96	+10.1
Lon	1.06	1.08	-31.7
NW	1.01	1.02	-25.5
WM	0.94	0.95	-14.2
NGN	0.96	0.95	+27.9
Sc	0.99	0.97	+27.3
So	1.04	1.04	-23.2
WWU	1.12	1.10	+27.5
			-1.8
Benchmark (85th)	0.96	0.95	
Range	0.18	0.15	
Adj. R-squared	0.927	0.920	

[51] RIIO-GD3 Draft Determinations – Gas Distribution, 5.118.
[52] In 2024, WWU and WM's customer numbers were 2.57m and 1.97m respectively. Note that customer numbers are our preferred measure of scale, over the alternative of say network length (as the latter would already implicitly account for sparsity, as sparser networks require a larger network to service fewer consumers over a broader area).

2. Company Specific Factors

We agree with Ofgem's evaluation and conclusions.

Exclusions

We understand Ofgem's preference to include costs within the regression modelling where possible, but this cannot be to the detriment of sufficient Totex allowances to deliver what is a more complex price control than the last. We think the DD models, which largely remain unchanged from the RIIO-GD2 modelling suite, include areas within the regression models that, given changing regulatory demands and increasing cost profiles, require removal from the regression analysis. We set out below the cost categories that require a change in assessment methodology and the associated reasons.

Cost exclusions for non-regression benchmarking

As per our Cost Assessment and Benchmarking Approach Annex[53] submitted alongside our Business Plan, we agree with the majority of cost activities that have been excluded and assessed via non-regression benchmarking. We have commented further in GDQ41.

Cost exclusions for technically assessed projects and bespoke outputs

We welcome Ofgem recognising new cost exclusions for technical assessment given they relate to specific outputs and are new cost (or ramping up) to the price control. However, we do not agree with the pre-modelling adjustment methodology employed. Specifically, costs are technically assessed by experts; a pre-modelling adjustment for any disallowed element is applied as a normalisation adjustment, and the resulting allowed cost remains in regressions.

In this instance, Ofgem experts have already technically assessed the programme of work; determined what each GDN requires, and that it is deemed efficient. Their determination considers each GDN's individual requirements in the context of their scale (i.e. 1 network vs 4 networks (dis)economies of scale), complexity and historic funding (i.e. reopener spend deemed efficient in RIIO-GD2 which then impacts RIIO-GD3).

We see no reason why an expert determination should then be subject to further regression assessment. Ultimately allowance reductions are applied again through this assessment.

In the following section we set out specific examples where we find Ofgem's approach to be wrong. First, we focus on our LTS pipelines given their financial materiality and the safety impact of the current cost assessment methodology employed. Secondly, we focus on NIS related costs. We then cover other cost categories by exception.

WWU LTS pipelines:

We submitted £81m (3.7% of Totex) cost associated with replacing LTS pipelines specific to Wales. Throughout our plan submission we set out the rationale for these pipelines being unique and bespoke.

We expected these pipelines to be separately assessed on their technical merits, and the capital costs are greater than the Capex materiality threshold for technical assessment of £5m. We were pleased to see the needs case and full costing were approved by the Ofgem engineering team via EJP 7 and 10. However, this was not the case within the Cost Assessment models where costs remained within the

[53] Document 60: 'Cost Assessment and Benchmarking Approach'; section 7.

regression models. Given its complexity and materiality at 3.7% of our whole Totex submissions we were surprised to find no mention of this within Ofgem's WWU specific DD response.

We find the current DD treatment to be inconsistent and wrong for a number of reasons:

- Regression treatment is inconsistent with our RIIO-GD2 equivalent pipe (HNO39) which was technically assessed (and is normalised in RIIO-GD2 costs in the RIIO-GD3 models).
- The RIIO-GD2 assessment correctly recognised there is no suitable cost driver for this given our high LTS pipeline population, bespoke to Wales.
- Leaving in regression is inconsistent with the treatment of other GDNs' pipelines Capex programmes, such as Cadent, SGN IP, and MP.

The resulting impact is:

Table 13 Impact of LTS adjustments

	Baseline (ICM)	Remedy	Net allowance var. £m
EoE	0.96	0.96	0.0
Lon	1.06	1.06	+0.1
NW	1.01	1.01	+0.1
WM	0.94	0.95	+0.1
NGN	0.96	0.96	+0.1
Sc	0.99	0.99	+0.1
So	1.04	1.04	0.0
WWU	1.12	1.07	+81.1
			+81.4
Benchmark (85th)	0.96	0.96	
Range	0.18	0.13	
Adj. R-squared	0.927	0.928	

By adjusting we find model fit improves – the R-square stays constant and the range between GDNs' efficiency scores is smaller. Other model parameters remain stable. We ask Ofgem to correct this by moving the costs for these pipelines, as supported by the Engineering team, to Separate Assessment in the Cost models.

Our NIS compliance requirements:

Across our plan there are activities that are critical to meeting our NIS obligations and the demands of Cyber Assessment Framework - Enhanced Profile (CAF-EP) by the end of 2027. We were careful to keep these activities within their distinct BPDT areas but the core driver of the spend is NIS obligations.

Many of these essential activities and their costs have either been disallowed or left in regression at DDs. This is having the effect of providing no or only partial funding for this essential activity to protect our assets against cyber or physical attack.

For instance, FTE roles allowed in the RIIO-GD2 Cyber reopener, which was separately assessed, we have classified in IT&T. We think these should be captured in the Cyber assessment process.

Table 12 Spend directly required to meet cyber obligations

		RIIO-GD3 Submitted Costs - £m - 2023/24					
NIS related spend	**Treatment at DDs**	**2027**	**2028**	**2029**	**2030**	**2031**	**RIIO-GD3**
IT Opex	In regressions	11.4	12.2	13.3	14.2	15.1	66.3
IT Capex	Pre-modelling adjustment	7.9	6.6	5.7	2.9	4.9	28.0
Obsolescence for Compliance	Disallowed	0.6	0.5	0.6	0.6	0.5	2.7
Physical Security	In regressions	5.8	4.8	0.9	0.9	0.9	13.4
		25.7	**24.2**	**20.6**	**18.6**	**21.4**	**110.5**

Each of the above NIS spend related items is picked up in turn in our 'Funding critical NIS related spend'[54] report.

Other:

The following are other areas where we ask Ofgem to reconsider its cost assessment methodology:

VCMA – each GDN has submitted a defined programme of support for vulnerable customers which Ofgem supports. Principally given the subject matter this is not an area that should be subject to regression and benchmarking reductions to allowances. To do so risks placing pressure on individual GDN vulnerable customer support programmes which then puts deliverability of vital services at risk of underfunding.

Data & Digitalisation – we welcome that Ofgem experts have already technically assessed this programme of work and determined what WWU requires, given its specific requirements. But as stated in GDQ33 we see no reason why this should be subject to further regression assessment and ultimately allowance reductions.

Physical Security Upgrade Programme (PSUP) Opex - the core driver of the Capex and associated Opex is compliance with the Critical National Infrastructure Network and Information Systems (CNI NIS). PSUP Capex spend is based on individual companies' requirements as technically assessed through RIIO-GD2 reopeners. As such, the associated PSUP Opex cost is specific to each GDN's specific circumstance. This is also a new spend, allocated to RIIO-GD3, given it follows the build costs associated with the Capex spend.

The above are all areas that Ofgem must change ahead of FDs – to not do so would place over-reliance on the regression modelling and providing insufficient allowances for what is a more complex control than those previous. This point was recently made by Sir Jon Cunliffe's review of Ofwat, which criticised over-reliance on a, "data-driven, econometric approach" that does not take "sufficient account of company-specific conditions and challenges"[55].

[54] GDQ33A - 'Funding Critical NIS related spend' report (WWU, August 2025)
[55] Independent Water Commission: Final report.' Independent Water Commission (July 2025); paragraph 417, page 193

3. Cost and Workload adjustments

On Capex activities, we welcome that the Ofgem engineering team have made proportionately the lowest adjustment for workload recognising the quality of our submissions in this area. Following the DD position, we have had engaging and constructive conversations with the engineering team and understand the data required for resubmission. We will be submitting supporting information to justify the disallowed spend.

Specifically on reinforcement, we agree with Ofgem's proposals to disallow GDNs high submission costs and move to Uncertainty Mechanisms (UMs) given the uncertainty in this area.

On Repex activities, we recognise the requirement to submit further information in Tier 2b, Tier 3 and Mains replacement. We will be submitting supporting information to justify the disallowed spend. We note that, given the risks to workload resilience in RIIO-GD3, our Tier 2b and Tier 3 programme length submitted is significantly lower than RIIO-GD2, representing the minimum required to maintain the network.

Other GDN submissions included significant Tier 2 and Tier 3 programmes of work. We support Ofgem's disallowance of other GDNs non-mandatory programmes and support Ofgem in continuing this through to FDs. All GDNs have talked about the significant resourcing risks we face – a material concern for RIIO-GD3 given inter-GDN pressures and external investment in other utilities and sectors.

Ofgem should guard against allowing mains replacement workload which is not absolutely required given the material labour pressure this could place on GDNs as we head towards the end of the 30-year iron mains replacement programme.

4. Other normalisation adjustments

On historical cost adjustments, we agree with Ofgem's approach. Any inconsistencies with this approach have been raised to the Cost Assessment team through the Gitlab model error remediation process.

On fatigue compliance, we welcome recognition of this within the Cost Assessment methodology. However, we consider the resulting impact on allowances to be too small (c.£3.5m in total, when tested using the DD cost modelling suite) given our leading compliance position at WWU, since regulations were defined in 2022.

In the Oxera report[56] as submitted alongside our BP, Oxera set out how an adjustment should work. In summary, costs should be inflated for non-compliant GDNs in those non-compliant years, increasing their cost base to the cost they should have been incurring to be compliant.

We think this would be materially more correct than the current approach which does the opposite, reducing costs from each GDN's cost base. We ask Ofgem to reconsider how it applies this adjustment.

Since DDQs we also note that fatigue has not been normalised properly. Ofgem notes that Cadent will only be compliant by 2028[57]. However, it only adjusts costs downwards for WWU and other compliant GDNs until 2026 and not into 2027, which is the relevant RIIO-GD3 benchmarking period. A fair and consistent treatment would be to adjust for all years up to 2028 when Cadent expect to reach full compliance.

On Standards of Service, we think that Ofgem has been inconsistent in their application of adjustments and point back to our Cost Assessment and Benchmarking Annex[58] where we proposed that Ofgem follow its own methodology from RIIO-GD1 and adjust GDN cost base upwards to recognise non-compliance.

We understand other GDNs have not employed workforce planning similar to ours and instead are unable to deliver their RIIO-GD2 plan, quoting resource issues and demands of contractors. This has resulted in handing back workload because it is too expensive to complete [59], a position we do not agree with.

We would expect a basic principle of the cost assessment process to reward those who can deliver on their commitments, and to adjust a GDN's cost base which has been softened by handing back outputs due to pressures it could have mitigated. In RIIO-GD2 Business Plans, other GDNs (including those now failing) put forward this same principle.

We made similar arguments in RIIO-GD1 where a number of GDNs failed their emergency standard but were influencing Ofgem's cost benchmark for the industry, creating an inappropriate efficiency challenge. Ofgem agreed with the issue and made adjustments as a result: *'[Ofgem] made an adjustment of +£0.75m to emergency costs in 2010-11 for each GDN (all four NGGD and NGN) that failed the emergency standard in that year. The adjustment reflects our assessment of the additional costs that would have been required to meet the standard.*[60]

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[56] Document 60E - Oxera (2024), 'Review of Ofgem's proposed approach to cost assessment at GD3', November, section 2.3.
[57] RIIO-3 Draft Determinations – Gas Distribution, para. 5.180
[58] Wales & West Utilities (2024), 'Cost Assessment and Benchmarking Approach', section 2.3.2
[59] Document 60E - Oxera (2024), 'Review of Ofgem's proposed approach to cost assessment at GD3', November, section 2.3.
[60] Ofgem (2012), 'RIIO-GD1: Final Proposals - Supporting document - Cost efficiency', December, para 6.8., p31

Similarly, an additional or alternative adjustment for deliverability of plans within the cost assessment process itself should be considered. We welcome Ofgem's consideration of these points.

On loss of meterwork, we disagree with the approach not to adjust RIIO-GD2 – this creates an inconsistency in treatment of these costs given RIIO-GD1 has been adjusted.

On Employers Tax increase, in the 2024 Autumn Budget on 30 October 2024, the UK Government announced the rate of Employers' National Insurance Contributions will increase from 13.8% to 15% effective from 6 April 2025.

Ofgem and GDNs agreed not to incorporate the cost of this tax change within the December 2024 submission of the Business Plan Data Templates due to the short time between the Autumn Budget and the Business Plan submission date, although some GDNs did include estimates within BPDT table M8.14 BUS.

At the most recent Cost Assessment Working Group – 12th August 2025 – Cadent presented a proposal of how to include this tax change within cost assessment to ensure funding for GDNs at Final Determination[61]. We support the 'High-level Totex uplift post regression' solution presented by Cadent at CAWG22.

On Disconnections, we recognise that we included £14m in baseline Totex for safety disconnections, but have notes from recent CAWG discussions that no other GDN included. We ask for this to be normalised in a similar way to other normalisation adjustments following clarification (note - this is different and not to be confused with Legacy disconnections.)

[61] Cost Assessment Working Group 22 – 12 August 2025, Ofgem presentation slides 56 to 74

Totex Benchmarking

GDQ37. Do you agree with our proposed approach to Totex benchmarking?

Yes, we agree. We raise individual concerns with the approach within questions below.

GDQ38. Do you agree with the proposed level of aggregation, estimation technique and time period for our econometric modelling?

In principle, yes, we agree on the level of aggregation (TOTEX), estimation technique (pooled OLS, as baseline model) and full time period.

On time-trends, in the DD document Ofgem asks for input on the continued use of the forecast time trend (t2) variable.[62] We agree that this variable's retention is required. As Ofgem notes, the trend variables allows, to some extent, the *'model to capture changes in real expenditure through time, due to increasing efficiency or other exogenous factors not captured within the model.*[63]

The forecast trend plays some role in potentially capturing excluded exogenous factors that vary over time in much the same way for each GDN, such as some mandatory compliance costs that are left in the regression over the forecast period (but not present in the historical data).

We have tested this operational rationale empirically. Based on Ofgem's most recent issue corrected model (ICM) files, the statistical evidence supports the retention of the t2 variable: the positive and significant coefficient sign on the t2 variable reaffirms that it is picking up, to some extent, the cost pressures from incremental mandatory cost activities. Furthermore, when the t2 trend is dropped from the model, the model fit (as measured in the adjusted R-squared) declines slightly (from 0.927 to 0.919).

However, Ofgem cannot rely on the t2 variable to pick up a number of the cost increases we set out as requiring revised treatment in this DD response. For instance, while increases in Repex complexity may initially be thought to potentially be captured by a time trend; across GDNs trends in complexity vary significantly, so cannot be proxied by a generic time trend (see our answer to GDQ36 for more detail on this). This is shown in the Oxera Repex complexity report, where in the appropriately specified model, the time trend estimates remain largely unchanged in terms of sign and magnitude when the relevant complexity driver is added to the model to capture the GDN-specific trends in complexity.

Similarly, while Cyber costs are separately assessed, most of our closely linked, interdependent IT costs have been left in the regression. However, such costs are very GDN-specific and cannot be proxied by a time trend.

Consequently, Ofgem must not rely on the t2 variable instead of fixing the underlying issues at source, as we set out within here – our testing and evidence has proven that it will not, which will be materially detrimental to us.

On estimation technique, while we agree that the current pooled OLS estimation technique remains appropriate, Ofgem should still test the robustness of its model against alternative specification techniques such as Random Effects (RE) and Stochastic Frontier Analysis (SFA) – as it did at RIIO-GD2.[64] These

[62] RIIO-3 Draft Determinations – Gas Distribution, para. 5.194.
[63] RIIO-3 Draft Determinations – Gas Distribution, para. 5.191.
[64] Ofgem (2019), 'RIIO-GD2 Final Determinations: Step-by-Step Guide to Cost Assessment', para. 1.25.

techniques could also serve other purposes within the current modelling suite. For example, as the Oxera report on Repex complexity shows, certain within-company effects over time (e.g. ductile iron and open cut) can only appropriately be accounted for within a panel (RE) structure. While Ofgem therefore does not per se need to switch to another estimation technique, these techniques can and should be used to ensure and enhance the robustness of its pooled OLS results.

GDQ39. Do you agree with our proposed cost drivers and approach to weighting drivers in the Totex CSV?

Yes, we agree with the cost drivers with the exception of:

1. Tier 1 Lay Diameter Mix submitted by other GDNs
2. The omitted Repex complexity drivers (specifically for technique, i.e. open cut, and material, i.e. ductile iron)
3. Using Repairs as the cost driver for Repairs instead of Reports

We provide further detail on each of these below. We also agree with the existing weighting of drivers in the Totex CSV.

1. Tier 1 Lay Diameter Mix

From our review of BPDT workload submissions, NGN and Cadent submissions for their Tier 1 Mains Replacement lay includes higher lay diameter bands, within Tier 1, than is operationally justifiable, given the proposed technique (i.e. insertion).

We have already shared our concerns here with Ofgem and we welcome Ofgem's recognition of this issue in the DD, raising, "…concerns about the justification for some of the Tier 1 mains workloads forecasts submitted by the GDNs in their Business Plans".[65]

Relating to Cadent, their historic delivery record demonstrates their forecasts are not credible. The following table exhibits this:

Table 12 Tier 1 lay diameter band analysis

Diameter Band: A	GD1 Actual	GD2 Forecast	GD3 BP	GD2 BP	GD2 Forecast vs BP
WWU	53%	44%	40%	41%	2%
NGN	26%	20%	3%	26%	(6%)
Sc	46%	53%	44%	39%	13%
So	44%	57%	40%	46%	11%
EoE	43%	40%	11%	10%	30%
Lon	37%	30%	7%	6%	24%
NW	54%	41%	11%	10%	32%
WM	54%	37%	13%	12%	25%

[65] RIIO-GD3 Draft Determinations – Gas Distribution, p.141-143, 5.220 – 5.224

As an example, in Cadent's East of England (EoE) region their RIIO-GD2 BP submission included only 10% of total Tier 1 lay within the smallest diameter band (band A) even though historic actuals were 43%. In contrast, this is now forecast to outturn RIIO-GD2 at 40%, 30% higher than their RIIO-GD2 BP. This was rightly pointed out by the Ofgem Cost Assessment Team in CAWG22.

Similarly, for NGN we see RIIO-GD1 and RIIO-GD2 historic data with >20% in the smallest diameter band, yet its RIIO-GD3 forecast is only 3%. We note that NGN has applied this in its RIIO-GD3-BPDTs from 2025. We have analysed RIIO-GD2 year 4 outturn data and found this to be materially different to that in the BPDT - and in fact, find 34% delivered in band A.

The table below highlights this. We compare Y4 results (April 24 to March 2025) as published in July 2025 to the RIIO-GD3 BPDTs (Dec 2024) for the same period.

Table 13 Comparison of forecast vs actual data for Tier 1 lay diameter

GDN	RRP Y4 outturn	GD3 BPDT forecast	Variance %
	2025	2025	2025
WWU	42%	39%	3%
NGN	34%	3%	31%
Sc	53%	55%	(2%)
So	49%	57%	(8%)
EoE	29%	41%	(12%)
Lon	31%	30%	1%
NW	37%	41%	(5%)
WM	32%	36%	(5%)

When we see other GDNs delivering materially different workloads to their RIIO-GD2 BP submission and presenting unjustifiable workload shifts in their RIIO-GD3 BPs we question the quality and fairness of their plans.

In contrast, both tables show how we have provided and delivered on materially accurate forecasts. In our plan we have analysed every individual pipe we will be working on in RIIO-GD3 to determine the lowest-cost replacement option of that pipe – including whether it needs to be open cut or inserted, and the diameter of pipe to lay. There is a clear methodology and a clear historic trend of lay diameter band delivery. In recent Cost Working Groups[66] it was rightly recognised that our forecasting of lay diameters was highly accurate, and we have delivered closely to that presented in our RIIO-GD2 BP.

What is the remedy?

Ofgem adjusted the RIIO-GD3 modelling to maintain fairness across GDNs. We have presented solutions that remedy this as follows:

A. Adjusting Cadent and NGN lay diameters back to historic actuals.
B. Adjust all GDNs using an industry standard practice for insertion diameters.

[66] Cost Assessment Working Group 22 – 12 August 2025, Ofgem presentation slide 36

There are clear pros and cons of each option; either option would serve to materially correct the position back to a fair and equitable position for WWU. We have provided the Ofgem Cost Assessment team with working files to enact either of the options above.

What is the impact for us?

This has a material impact on regression results by GDN, affecting efficiency scores and ultimately allowances. The following are the results of each remedy option:

Table 14 Impact of Lay Diameter Adjustments

	Baseline (ICM)	Remedy A	Net allowance var. £m	Remedy B	Net allowance var. £m
EoE	0.96	0.98	-37.2	0.97	+3.9
Lon	1.06	1.08	-25.7	1.07	-5.9
NW	1.01	1.03	-18.3	1.02	-0.7
WM	0.94	0.96	-16.2	0.95	+4.0
NGN	0.96	0.96	+3.7	0.97	-6.2
Sc	0.99	0.97	+25.7	0.98	+19.4
So	1.04	1.02	+50.7	1.03	+34.4
WWU	1.12	1.10	+37.4	1.10	+37.0
			+20.2		**+86.0**
Benchmark (85th)	0.96	0.96		0.97	
Range	0.18	0.14		0.15	
Adj. R-squared	0.927	0.926		0.927	

In both remedies we find:

- Efficiency scores and cost predictions improve for WWU and SGN as expected.
- Model fit somewhat improves – the R-square stays constant and the range between GDNs' efficiency scores is smaller. Other model parameters remain stable.
- Directionally WWU and SGN allowances improve as expected given their forecasts remain and have been historically proven to be the most accurate.

Option A is our preferred resolution.

2. Repex complexity not captured in the Repex CSV

Ofgem has indicated that it will consider proposals to account for the complexity of the work within the REPEX models, where GDNs can provide what Ofgem considers, "sufficient evidence and an appropriate methodological approach" to do so.[67] We have presented evidence to Ofgem on the need to account for open cut and ductile iron, and how this can be done consistently across GDNs, at CAWGs and bilateral meetings before its draft determinations.

However, below (and in the accompanying Oxera report, in more detail[68]) we provide the evidence against each criteria that Ofgem has indicated it requires for such an adjustment, as follows.

2.1. Comparable workload data, submitted on a consistent basis: As Ofgem notes in its draft determinations, "(t)he increased volume of ductile iron and the proportion of repex undertaken through the open cut technique were two factors that were cited by several of the companies". [69] This information has already been collected on a consistent basis in company Business Plan data tables (BPDTs) - both at RIIO-GD2 and RIIO-GD3 (and at a fairly granular level, by tier).[70] This data is thus available on a consistent basis across all GDNs since at least 2022, and for non-Cadent GDNs from 2014.

2.2. An increase in complexity in GD3, not funded previously. Based on this data, the figures below clearly show that Tier 1 workload complexity is set to increase significantly in RIIO-GD3 (though with significant variance across networks). That is, focussing on the RIIO-GD3 model period, our respective RIIO-GD3 Tier 1 open cut and ductile iron workload shares of 19.5% and 35.2% are, alongside NGNs, the highest the industry has seen.[71] These are also much higher than the RIIO-GD3 model period[72] average Tier 1 open cut and ductile iron shares across GDNs, of 9.4% and 21.1% respectively – which may be considered as the level of complexity implicitly funded by the model (as per Ofwat's approach to implicit allowances at PR24).[73]

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[67] With reference to the five criteria listed by Ofgem in RIIO-3 Draft Determinations – Gas Distribution, 1 July, para. 5.219

[68] GDQ39A - Oxera Accounting for increased REPEX complexity over RIIO-GD3

[69] RIIO-3 Draft Determinations – Gas Distribution', 1 July, para. 5.219

[70] A similar level of data is reported in ongoing annual Regulatory Reporting Pack (RRP) data

[71] We focus on tier 1 mains here, inter alia as the largest category (c.85-90% of workload) and where there have been no disallowances over GD3, but we note that virtually the same picture emerges when considered across all mains categories in aggregate.

[72] In GD3, Ofgem uses 2014 - 2031 for the model period. The 9.4% and 21.1% figures for open cut and ductile iron are thus the averages across all years and GDNs in this period, where data is available (i.e. excluding missing Cadent data pre-2022).

[73] See the rational explained by Ofwat for its 'what base buys' implicit allowances in the PR24 final determinations, for example at Ofwat (2024), 'PR24 final determinations. Expenditure Allowances', pp 31 & 34.

Figure 13 Tier 1 (iron) open cut workloads per price control and GDN

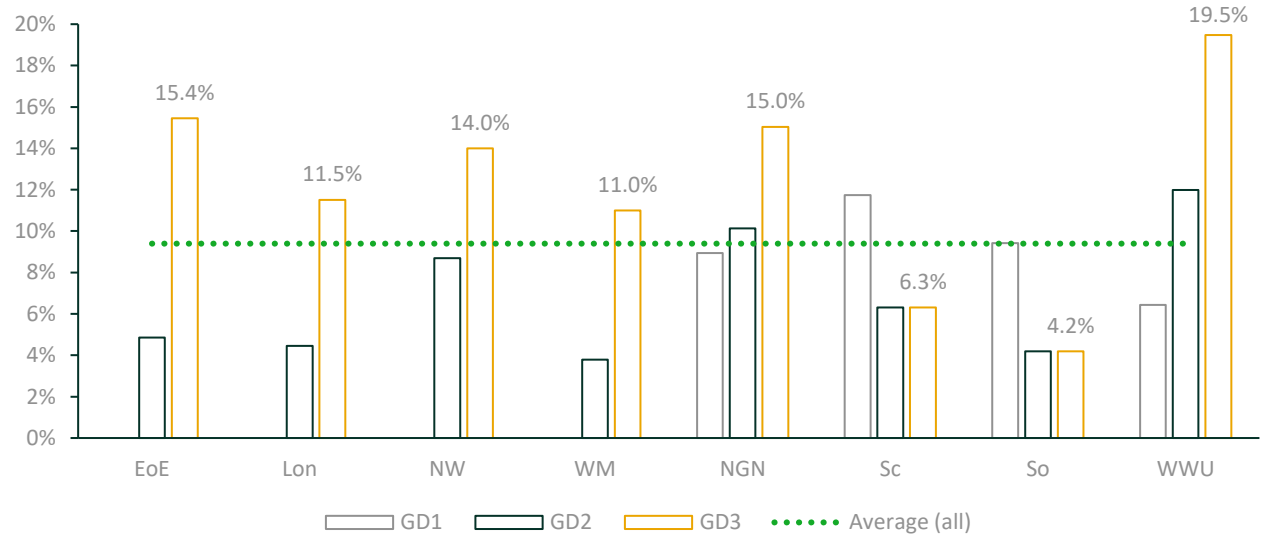
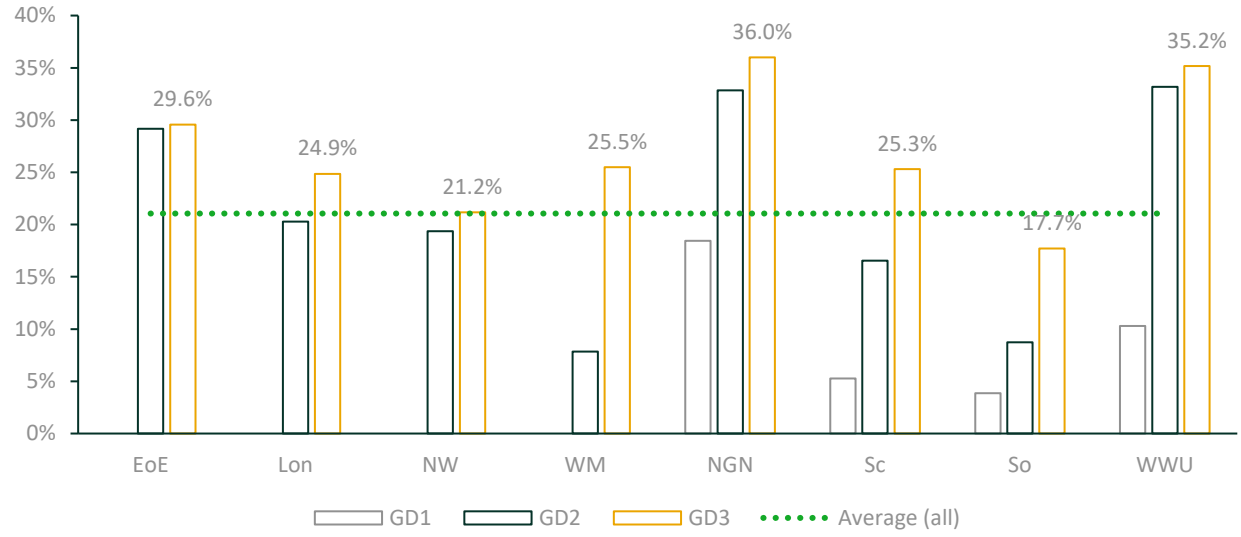


Figure 14 Tier 1 (all) ductile iron workloads per price control



Note: Open cut ratios exclude steel mains <2", which is all open cut; Dutile iron ratios consider iron and steel (i.e. all tier 1 volumes).

Retrospectively, focussing on the GD2 benchmark period, Ofgem also requested evidence that these complexity volumes represent an increase compared to past *forecasts* (e.g.GD2), and that they have not already been funded under earlier price controls. As shown below, GDNs had to varying extents under- or overestimated their RIIO-GD2 workloads ex ante back at the time of RIIO-GD2 BPDT submissions[74].Nevertheless, both the average forecast and outturn updated figures for open cut and ductile iron workload shares for RIIO-GD2 (12.9/6.8% and 20.6/21.0%) as well as the RIIO-GD2 full modelling period averages (11.9% and 16.9%[75] respectively) as well as the RIIO-GD2 full modelling period averages (11.9% and 16.9%,[76] respectively) are still significantly below our RIIO-GD3 expected levels for the same tier 1 mains (19.5% and 35.2%, respectively).

What is more, note that, in contrast to many other GDNs, our complex workloads forecast have proved accurate and therefore a reliable forecast for the RIIO-GD2 period (as Ofgem has also noted in its own presentations to the cost assessment working group, with respect to RIIO-GD2 lay diameter mix forecasts[77]).

Table 15 Variance in initial tier1 workload forecasts vs outturn update for GD2 (as per GD2 and GD3 BPDTs)

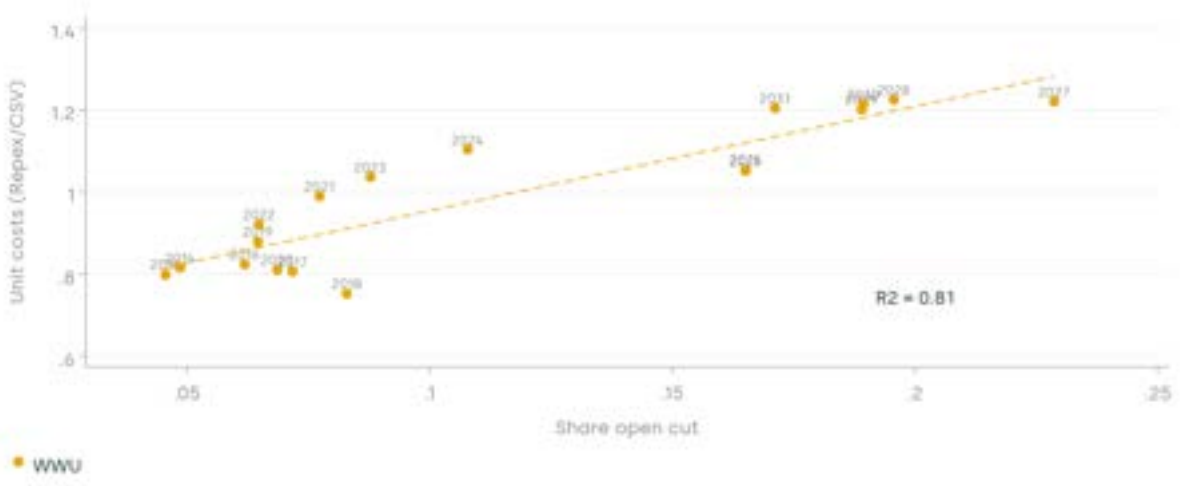
Network	Open Cut			Ductile iron		
	GD2 forecast (2019)	GD2 updated (2024)	Variance (forecast–update)	GD2 forecast (2019)	GD2 updated (2024)	Variance (forecast–update)
EoE	15.1%	4.9%	10.2%	29.2%	29.2%	0.0%
Lon	17.0%	4.5%	12.5%	24.6%	20.3%	4.3%
NW	14.0%	8.7%	5.3%	22.4%	19.4%	3.0%
WM	11.0%	3.8%	7.2%	22.8%	7.8%	14.9%
NGN	12.0%	10.1%	1.9%	25.5%	32.8%	-7.4%
Sc	12.5%	6.3%	6.2%	4.8%	16.6%	-11.8%
So	8.7%	4.2%	4.5%	3.4%	8.7%	-5.3%
WWU	12.7%	12.0%	0.7%	31.9%	33.2%	-1.3%
GDN avg.	12.9%	6.8%	6.1%	20.6%	21.0%	-0.4%

[74] In GD2, Ofgem used 2014 – 2026 as the model period, based on actual and forecast data as provided in company business plan data from 2019.
[75] These averages are based on the full period figures across GDNs at the time (again, excluding missing Cadent data pre-2022), which are not shown in the table.
[76] These averages are based on the full period figures across GDNs at the time (again, excluding missing Cadent data pre-2022), which are not shown in the table.
[77] Ofgem (2025), 'Gas Distribution – Cost Assessment Working Group 22', 12 August, slide 33.

2.3. Consistently quantified cost impacts. To provide clear and well-evidenced estimates of the additional costs due to complexity, calculated consistently across all GDNs, Oxera has estimated the cost impact of the variation in complexity between *and* within GDNs over time.

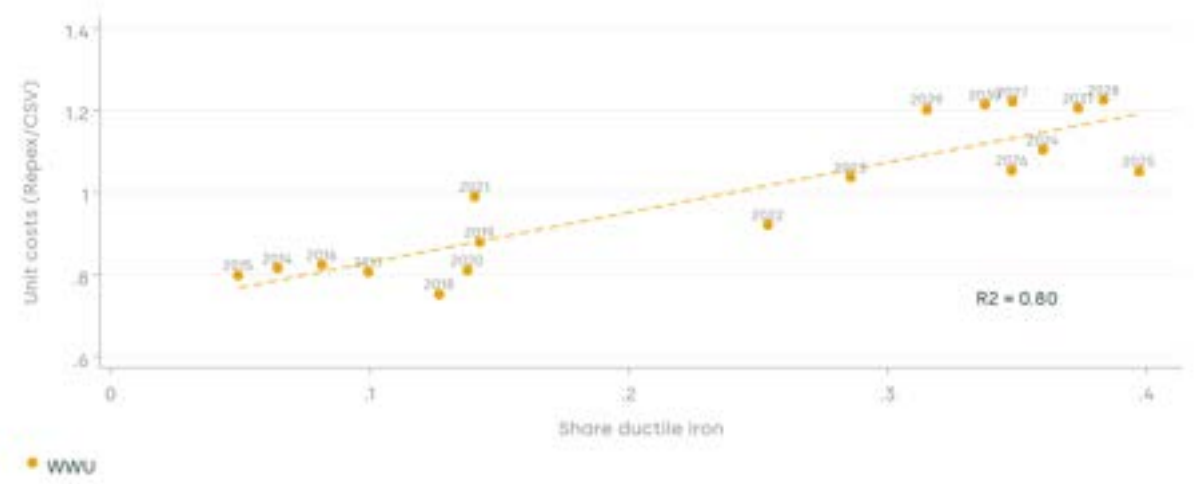
To capture both the different timings/trends and relative levels of complexity, across GDNs, a RE panel model for Repex was used. Unlike a pooled OLS model, this can appropriately account for both between and within company changes in complexity.[78] Intuitively, these models therefore also capture the GDN-level variation in costs, as reflected in the figure below for our own normalised Repex unit costs (as used in Ofgem's modelling[79]) against the relevant complexity drivers. The figures show that (i) each individual complexity driver explains c. 80% of the variance in our Repex unit costs over time (even more so, 87%, if viewed together[80]), and (ii) our complex workloads don't increase linearly over time.

Figure 15 The relationship between REPEX unit costs and tier 1 open cut workloads for our network



[78] For more details, see GDQ39A - Oxera Accounting for increased REPEX complexity over RIIO-GD3
[79] That is, these figures plot the ration of our normalised and adjusted Repex costs and Repex CSV, as used in Ofgem's TOTEX regression.
[80] This is based on a simple linear regression of our Repex unit costs, as used in Ofgem's modelling, against both complexity factors simultaneously.

Figure 16 The relationship between REPEX unit costs and tier 1 ductile iron workloads for our network



When these complexity drivers are each separately added to the appropriately specified Repex RE model, we find economically large and statistically significant cost impacts on both drivers[81].

2.4. The materiality of the cost impacts. The tables below show the impact on predicted costs for both us and other GDNs, in the appropriately specified models, with and without accounting for the relevant complexity factor. The industry-wide (or 'top-down'), consistently estimated complexity impact is clearly material, as it shows that our notional Repex cost predictions would have been more than 14% higher once accounting for open cut, and c.6% when accounting for ductile iron.

Table 16 REPEX cost predictions with and without open cut (£m)

GDN	RE	RE + open cut	Change (£m)	Change (%)
EoE	880.08	910.01	29.93	3%
Lon	664.95	677.68	12.73	2%
NW	673.49	707.38	33.89	5%
WM	538.48	560.21	21.73	4%
NGN	810.14	842.22	32.08	4%
Sc	405.21	411.80	6.59	2%
So	975.58	863.51	-112.07	-11%
WWU	601.92	687.32	85.40	14%

[81]see GDQ39A - Oxera Accounting for increased REPEX complexity over RIIO-GD3

Table 17 REPEX cost predictions with and without ductile iron (£m)

GDN	RE	RE + open cut	Change (£m)	Change (%)
EoE	880.08	876.05	-4.03	0%
Lon	664.95	673.09	8.14	1%
NW	673.49	672.21	-1.28	0%
WM	538.48	559.28	20.81	4%
NGN	810.14	831.25	21.11	3%
Sc	405.21	434.48	29.26	7%
So	975.58	922.91	-52.66	-5%
WWU	601.92	637.21	35.29	6%

Note that the open cut estimates align with the cost impacts observed in our internal cost component model, which estimates a 12% impact. For ductile iron, the cost component model estimates a 13% impact, more than double the estimate above primarily due to the different cost allocation methodologies used by the GDNs.

2.5. Robust methodology for incorporating Repex complexities into Ofgem's model. We propose that Ofgem use such consistently quantified cost impacts to construct a Repex complexity factor index, similar to Ofgem's approach for urbanity, sparsity and regional wages. This can then be applied either: (i) as a scaling factor to the Repex cost driver's synthetic unit costs; or (ii) to remove the increased costs due to these complexity factors as a pre-modelling cost adjustment (similar to Ofgem's approach to regional factors). More details on how exactly this can be done are provided in the Oxera report.[82] We have modelled the impact vs the baseline Ofgem model (ICM) and find the following impact:

	Baseline (ICM)	Remedy	Net allowance var. £m
EoE	0.96	0.95	4.5
Lon	1.06	1.05	-2.5
NW	1.01	1.00	-5.8
WM	0.94	0.95	-14.2
NGN	0.96	0.95	6.2
Sc	0.99	1.01	-32.4
So	1.04	1.07	-84.2
WWU	1.12	1.09	34.3
			-93.9
Benchmark (85th)	0.96	0.95	
Range	0.18	0.14	
Adj. R-squared	0.927	0.921	

[82] We would be happy to provide Ofgem with the necessary modelling files upon request.

We recognise that, by adjusting for model complexity, model fit remains comparable, and there are material swings in net allowances directionally as expected, given the underlying data. The overall impact to consumers is negative.

We look forward to working with Ofgem on how to account for these omitted complexity drivers in the period between now and final determinations.

3. Using Repairs instead of Reports:

Currently Ofgem use Public Reports as the cost driver for Repairs on the network. This was discussed in the most recent Cost Assessment Working Group (12th August 2025) and there was agreement across all GDNs that Reports volumes are not consistently reported across GDNs. This was as presented by the Ofgem Cost Assessment Team, as identified through responses from all GDNs to a related SQ.

Examples were provided where multiple reports could be received for the same leak. As such, this was deemed not to be a robust cost driver.

Alternatively, all GDNs confirmed the operational practices for recording a repair followed a consistent process. It was also confirmed by all GDNs that the process for recording a secondary repair - which is a follow-on repair after the primary repair has been resolved - was comparable across all GDNs. Given the operation of undertaking the repair (locating, digging, repairing, backfilling) is the key cost driver, it was agreed Repair volumes was a more accurate cost driver.

We agree with this conclusion; Repairs are a more robust cost driver, and we expect Ofgem to therefore amend this in the final FD models.

GDQ40. What are your views on our proposed workload adjustments to cost drivers?

See Cost and Workload adjustments in GDQ36.

Non-regression analysis

GDQ41. Do you agree with our approach to non-regression benchmarking analysis?

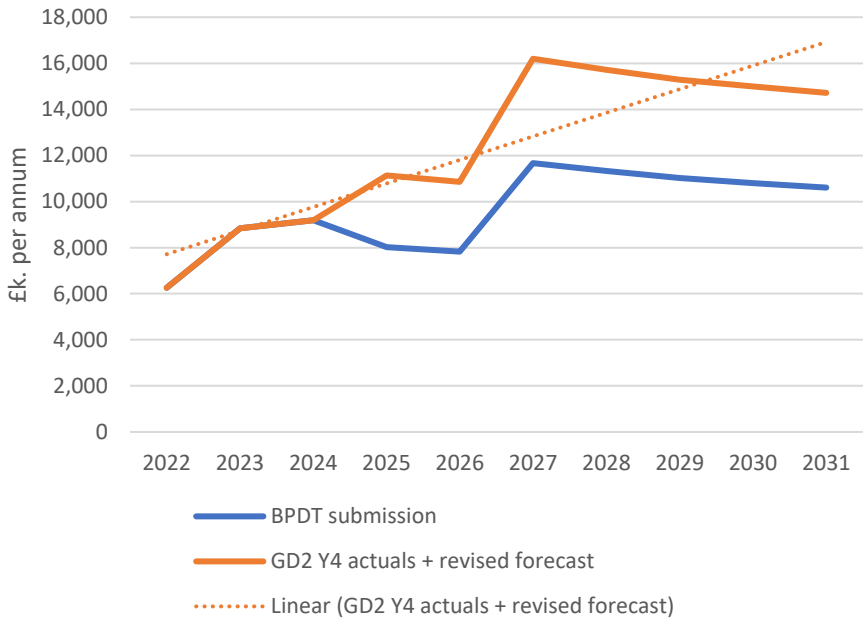
In principle we agree with Ofgem's approach to non-regression benchmarking, apart from the Streetworks methodology.

Recognising the increasing cost of Streetworks

Permit schemes were introduced by local authorities through RIIO-GD1 and early in RIIO-GD2. This change in legislation provided local authorities with the power to place permit conditions which dictate the type of traffic management statutory undertakers must use to complete their work. The application of the conditions from the local authorities in relation to managing and working on their network has led to a significant increase in unavoidable traffic management costs. These costs have continued an upward trajectory through RIIO-GD2, as represented in our BPDT submission.[83]

The following graph sets out total costs per Streetworks; the blue line sets out the submission to Ofgem for RIIO-GD3, while the orange line represents an update to reflect actual cost outturn in 2025 RIIO-GD2 – which was 38% higher than forecast in our BP submission.

Figure 17 Cost of Streetworks



As visible in the graph, there is a clear upward trajectory of costs through RIIO-GD2 and RIIO-GD3, further exacerbated by the year 4 outturn.

[83] As per DDQ WWU028, WWU resubmitted the Streetworks BPDT table following the identification of missing costs. The Ofgem Cost Assessment Team have confirmed this will be adjusted ahead of Final Determination.

The current methodology underfunds GDNs

Ofgem use an equally weighted 10-year average (RIIO-GD2 and RIIO-GD3) to determine the Streetworks allowance for RIIO-GD3. This methodology does not consider the upward cost profile across those 10 years - particularly the rising costs throughout RIIO-GD2 experienced in this cost category. Given this upward trajectory in the first four years of outturn data (21/22 to 24/25), the 10-year average will underfund GDNs in all years of RIIO-GD3.

How can this be resolved?

We think a shorter-term average, such as a 7 year or 8-year average (2023-2031) would serve to remove the first two years of RIIO-GD2 which appear to be skewing the 10-year average. Given Streetworks is a standalone table in the BPDT, we ask Ofgem to reflect updated Streetworks year 4 RIIO-GD2 actuals within its RIIO-GD3 Cost Assessment.

We welcome the reopener for Streetworks remaining in RIIO-GD3 and providing some protection for upward exogenous cost pressures not captured within the above methodology. However, this does not currently allow for cost increases identified between GD BP submission and the start of the control. In fact, the current Draft Determination position taken on the RIIO-GD2 Streetworks reopener has disallowed a significant proportion of efficiently incurred cost which has resulted from changes that happened in this same circumstance – between BP submission and FDs.

We ask the Ofgem Policy team to amend the wording of the RIIO-GD3 Streetworks Reopener to avoid a similar position as RIIO-GD2. This has been raised through the Cost Assessment Working Group and Policy team, and within the Licence drafting process.

Inconsistency in the inclusion of Streetworks “Loss of productivity”

What is the issue?

At the most recent Cost Assessment Working Group (CAWG) (12 August 2025, CAWG 22) NGN presented on a material inconsistency in Streetworks costs submitted in the final BPDTs. It was identified that SGN and Cadent have included the impact of "loss of productivity" for all RIIO-GD2 and RIIO-GD3 years. NGN and WWU have not submitted an equivalent value even though there is an equivalent loss of productivity in all networks.

As such, there is an inconsistency across GDNs which is impacting efficiency scores and allowances.

It has been stated by Cadent and SGN that there was agreement through the RIIO-GD2 RRP working group to include this cost in the Streetworks table. We have reviewed all the relevant Year 3 RRP working group consultation documentation, including action logs and decisions made. This has confirmed there was no agreement between GDNs and the Ofgem RIIO-GD2 cost team to submit “Loss of Productivity” within this stand-alone table at time of BPDT submission.[84]

Furthermore, there has been no productivity calculations or assumptions shared between GDNs and therefore no common methodology established through a governed forum. Therefore, the model(s) used by Cadent and SGN may be subjective and heavily assumption led.

[84] Further evidence of this, including action logs and emails from RIIO-GD2 cost team can be provided on request.

How can this be resolved?

To ensure fairness and consistent treatment across GDNs, Ofgem can either:

1. Accept re-submissions from WWU and NGN for their equivalent "loss of productivity" estimates
2. Remove SGN and Cadent "loss of productivity" costs, as submitted in the BPDT stand-alone table, and place back into regression models. This would align with the treatment of WWU and NGN currently.

Option 1. Our assessment of Streetworks "loss of productivity" for resubmission

Below we set out our methodology and the values associated with our estimate.

In our September 2024 RIIO-GD2 Streetworks Reopener submission we calculated a productivity estimate of the permit scheme conditions introduced in England. We have used this detailed calculation to derive an annual estimate for the full 10-year basis that covers our whole network (including a recognition that Wales is also impacted). Given time available, we have taken the detailed calculation from the RIIO-GD2 reopener and applied high level adjustment factors to calculate the 10-year position, covering all the network. Should the preferred treatment be to continue to capture "loss of productivity" through the separate technical assessment then we ask Ofgem to recognise the estimates below.

Table 18 GD2 loss of productivity

£k (2023/24 prices)	Y1	Y2	Y3	Y4*	Y5*	RIIO-GD2
loss of productivity	£1,535	£1,912	£3,312	£4,011	£4,011	**£14,781**

*Year 4 and year 5 estimates are calculated using RRP Y4 actuals.

Table 19 GD3 loss of productivity

£k (2023/24 prices)	Y1	Y2	Y3	Y4	Y5	RIIO-GD3
loss of productivity	£4,205	£4,080	£3,970	£3,891	£3,821	**£19,967**

If requested, we can resubmit the Streetworks BPDT table inclusive of the above.

Option 2: remove SGN and Cadent "loss of productivity" costs

Below we set out the modelled impact of this adjustment:

	Baseline (ICM)	Remedy	Net allowance var. £m
EoE	0.96	0.96	-16.6
Lon	1.06	1.07	-28.7
NW	1.01	1.01	-12.5
WM	0.94	0.95	-9.5
NGN	0.96	0.95	+6.7
Sc	0.99	0.98	+2.8
So	1.04	1.04	-33.4
WWU	1.12	1.11	+6.2
			-85.0
Benchmark (85th)	0.96	0.95	
Range	0.18	0.16	
Adj. R-squared	0.927	0.924	

Catch-up efficiency challenge

GDQ42. What are your views on our proposed approach to applying the catch-up efficiency challenge?

We agree that a benchmark challenge of no more than a three-year glidepath remains appropriate.

However, as discussed in GDQ36, while the draft determinations model may seem to perform well on Ofgem's statistical metrics[85] – there are clear and obvious inconsistencies in treatment (e.g., lay-diameter forecasts) and omitted variables (including open cut and ductile iron Repex complexity).

This explains why the output from the model is not consistent with operational realities and, in particular, counter-intuitive for WWU. This is illustrated in the fact that, based on the draft determination model, Ofgem has proposed lower allowances in real terms for us at RIIO-GD3 relative to what we received at RIIO-GD2. This is despite the fact that we have more work to do, which is more complex, and will take place in a more complex environment than RIIO-GD3.

We have tested this empirically. Standard statistical tests show that the current Totex model's cost predictions are so far away from our submitted costs, as normalised by Ofgem, that our datapoints would be classified as outliers.[86]

If the issues we have highlighted around consistency in treatment and accounting for increased Repex complexity are thus not addressed then it is clear that the current frontier benchmark is not appropriate for WWU.

GDQ43. Do you consider that the efficiency frontier should be set based on historical performance?

Yes. We believe that an efficiency frontier based on what GDNs have actually achieved on an outturn basis (that is, over the five years from 2020–24) is more reliable, as a measure of the frontier that GDNs have achieved in practice. It is also more consistent with Ofgem's benchmarking approach at RIIO-T3, where Ofgem has paced a greater weight on networks historical performance due to doubts around the reliability of forecast data. We detail each of these points in turn below.

- **(Un)reliability of GDNs' forecast data (with parallels to Ofgem's T3 benchmarking[87]):** Unlike previous price controls, there are more concerns over the accuracy and reliability of (other) GDNs' forecast data – especially as it relates to mains replacement workloads. As Ofgem has noted[88] (and as discussed in response to GDQ39 above), more than half of the GDNs' lay/diameter mix RIIO-GD3 forecast mains replacement workload data have not been submitted on a consistent basis when compared to what either historical outturn or standard operational rationale would suggest. This materially affects the

[85] Such metrics only measure the *overall* model fit and robustness, they do not address whether a model is accurate or robust for an individual GDN.
[86] For example, standard statistical tests like comparing studentised residuals and Cook's D tests for influential observations (i.e. an outlier with high-leverage) both suggest that observations for WWU over GD3 are outliers, that would normally be considered as unusual datapoints and considered for exclusion from the model. For example, Ofwat has used the same Cook's D test to drop schemes from its enhancement modelling at PR24 – see Ofwat (2024), 'PR24 final determinations: Expenditure allowances', p.183.
[87] Ofgem (2025), 'Consultation – RIIO-3 Draft Determinations – Electricity Transmission', 1 July, pp 145 – 153 (relating to the benchmarking of business support costs and closely associated indirects).
[88] CAWG22 slide 36-39 and RIIO-3 Draft Determinations – Gas Distribution para. 5.220

Repex cost driver forecasts used in the model, and therefore the reliability of the model over RIIO-GD3. We have also noted other inconsistency concerns around forecast data, for example around the productivity exclusions for streetworks (also at GDQ39). This has parallels to the RIIO-T3 benchmarking of business support costs and closely associated indirects, where Ofgem placed greater weight on historic data by basing its econometric benchmarking[89] on historical data only due in part to inconsistencies in how TOs reported indirect costs. Further, as stated in our Business Plan submission, tests should be undertaken for structural breaks[90] – similar to those Ofgem seems to have considered for transmission operators at RIIO-T3.[91] Our initial assessment of Ofgem's latest modelling files suggest that a structural break may also be present in historic and forecast in the current data.[92]

1. **Consistency with OE challenge:** Given the inconsistency in GDN forecast data, we think it would be more appropriate for the current/actual frontier company's performance to be used as a starting point (that is, at least if Ofgem were not to ensure consistency in lay diameter mix forecasts and other inconsistencies on what is included and excluded from the model on a forecast basis). The OE challenge, currently applied to efficient predicted costs from 2025 onwards, should thus be applied to what the frontier GDN has managed to achieve in practice up to that point (i.e. over 2020–24).

This would have the impact as shown in the table below. Note that, based on actual recent performance, WWU is effectively the 85th percentile, benchmark network.[93] The outturn benchmark is thus more consistent with our current performance and historical track record (we were also as assessed to be the 2nd ranked, benchmark network at the time of RIIO-GD2 final determinations[94], and we are the only GDN to have met all of the fatigue, emergency and tier 1 mains replacement standards over RIIO-GD2 to date).[95] In contrast, using a less reliable RIIO-GD3 forecast benchmark period produces results that are inconsistent with GDNs historical track record (e.g., seeing WWU move to last, as an outlier, while EoE as the GDN with the largest overspend over RIIO-GD2 this far, would move to the benchmark).

[89] Complemented by a simpler ratio analysis approach, which does account for forecast data. See Ofgem (2025), 'Consultation – RIIO-3 Draft Determinations – Electricity Transmission', 1 July, para. 5.96

[90] As discussed in our Business Plan and the accompanying Oxera report, WWU (2024), 'Cost Assessment and Benchmarking Approach', 22 November, section 5.4, p. 54 and Oxera (2024), 'Review of Ofgem's proposed approach to cost assessment at GD3. Prepared for Wales & West Utilities', 22 November, pp. 27 – 30.

[91] Ofgem (2025), 'Consultation – RIIO-3 Draft Determinations – Electricity Transmission', 1 July, paras. 5.112 (see fn 77), 5.137, 5.148, and A2.15 in appendix 2

[92] This is based on modelling with Ofgem's latest issues corrected model (or ICM), testing for a structural break between historic outturn data up to 2024 and forecast data from 2025 – 2031. Modelling files can be provided upon request.

[93] Which is based on the notional position just above the second-ranked company, based on the way Ofgem calculates the 85th percentile.

[94] Ofgem (2019), 'RIIO-GD2 Final Determinations: Step-by-Step Guide to Cost Assessment', p. 22.

[95] We note that, should Ofgem consider an outturn benchmark, it may also wish to model the impact of COVID. For example, we note that including a COVID-dummy variable for 2021 would both improve the model fit and results in 75th and 85th percentile benchmark estimates of 1.00 and 0.98 respectively. Modelling files showing this can be provided upon request.

Table 20 Frontier company based on historic vs GD3 forecast benchmark period96

GDN	GD3 forecast (2027-31) Efficiency	Rank	Historic (2020-24) Efficiency	Rank
EoE	0.96	2*	1.09	7
Lon	1.06	7	1.15	8
NW	1.01	5	1.06	6
WM	0.94	1	1.01	4
NGN	0.96	3	0.86	1
Sc	0.99	4	1.01	3
So	1.04	6	1.06	5
WWU	1.12	8	0.99	2*
Benchmark (85th)	0.96		0.99	
Benchmark (75th)	0.96		1.01	

* Indicates approximate 85th percentile benchmark network.

Finally, we note that if Ofgem were to opt for an outturn benchmark, it may be important to account for the fact that other GDNs have not universally met their service standards over the first three years of RIIO-GD2. While fatigue non-compliance is accounted for in the results from the ICM model above, some GDNs have also been avoiding costs through non-compliance with emergency standards and/or with the HSE's tier 1 mains replacement mandate.[97] For example, in RIIO-GD1, where some GDNs influencing the cost benchmark failed their emergency standards, creating an inappropriate efficiency challenge for other GDNs meeting these commitments, Ofgem made an upward cost adjustment for these GDNs' historical costs. This adjustment reflected the additional costs that would notionally have been required to meet the standard.[98]

By way of comparison, whilst not easily modelled, we think the cost associated with meeting the Standards of Service is in the range of 20-30 heads (25 FTE point estimate) which is a cost of c.£1.7m p.a. For WWU, many managers and operatives across our wider business are trained to help maintain these Standards of Service at peak times, for instance our mains replacement operatives, which mitigates our requirement to have additional FCO FTEs that are unproductive for large periods of the year. We continue to utilise our FCOs on other productive activities. Therefore, our operating model serves to save money by servicing this peak demand through cross-flexing rather than inflated FTEs. This is clear when comparing the cost per PRE where WWU are over 20% cheaper than the next GDN whilst maintaining standards (per year 4 RRP).

[96] Based on Ofgem's latest ICM modelling files.
[97] As discussed in our Business Plan and the accompanying Oxera report, Oxera (2024), 'Review of Ofgem's proposed approach to cost assessment at GD3. Prepared for Wales & West Utilities', 22 November, pp. 16 – 20.
[98] Ofgem (2012), 'RIIO-GD1: Final Proposals - Supporting document - Cost efficiency', 17 December, para. 6.8.

Technically assessed costs

GDQ44. Do you agree with our assessment of technically assessed costs and bespoke outputs?

We agree with the assessment framework for Cyber; ALD; DPLA; Large rechargeable Local Transmission System (LTS) diversions; Iron stubs; PSUP capex and Major projects.

However, we principally disagree with the following areas not being technically assessed:

1. WWU specific LTS pipeline replacement
2. NIS related IT&T Opex, and IT Capex.
3. Data & Digitalisation
4. VCMA BAU
5. PSUP Opex

We have set out the rationale for this in GDQ36.

Disaggregation of allowances

GDQ45. What are your thoughts on our approach to disaggregating cost allowances?

Principally we agree with Ofgem in its approach to disaggregating allowances.

However, reflecting on RIIO-GD2, this process was time consuming and required many iterations. We think that further working groups are required to disaggregate the allowances correctly, and to a sufficient level of detail required. This is critical for accurate variance reporting through RIIO-GD3 RRP process.

We note that at a recent Cost Assessment Working Group meeting, SGN presented an alternative proposal on this topic, principally arguing for a disaggregation of allowances based on a notional company rather than a company specific basis. We disagree with this approach. The disaggregation of allowances should remain on a Company specific basis. This provides the best match between the determined efficient allowance, and the predicted spend by each company specific to their operating model and predicted spend categories. SGN argued that a notional basis would improve accuracy of RRP reporting, which we disagree with. Our stance is that applying on a notional basis will make it more difficult to report annually, particularly where a company has specific programmes of work that have been technically assessed. Variations in company specific cost profiles are typically driven by bespoke programmes of work, such as our LTS pipelines. To normalise this out would be wrong.

Totex Incentive Mechanism (TIM)

GDQ46. Do you agree with our proposed TIM sharing factor?

The proposed 50% TIM sharing factor would be appropriate, provided the overall package is reasonably balanced for risk and return.

RIIO-GD3 Draft Determinations WWU Annex Response

Summary

- We are concerned about the Business Plan Incentive assessment and we've highlighted inconsistencies in scoring across GDNs and provided external validation showing our plan was coherent, accessible, and well-supported by stakeholder engagement. We challenge the penalty for "non-stretching" targets, arguing that deliverability should be valued over impractical ambition. We propose that commitments be assessed at closeout to ensure fairness.
- We disagree with Ofgem's rejection of several NZARD UIOLI proposals. Each comprises multiple sub-projects, none exceeding the £2m cap individually. We've provided detailed breakdowns and evidence of need and argue that Ofgem's interpretation of scope and thresholds is inconsistent with earlier guidance.
- We broadly agree with Ofgem's engineering assessment but are concerned about disallowed workloads essential for regulatory compliance and asset safety. We've committed to submitting further evidence and EJPs to justify these areas.

Outputs and incentives

WWUQ1. Do you agree with our view that WWU passed all of the minimum requirements and as such are considered to have passed Stage A of the BPI?

We agree that WWU passed all minimum requirements and that we have passed Stage A of the BPI.

WWUQ2. Do you agree with our assessment results for WWU against Stage B of the BPI?

We do not agree with the current assessment results.

Comparative assessment results:

Since DD publication Ofgem have re-run the BPI assessment fixing for errors in the calculation and incorporating Totex model errors (as resolved in the Issue Corrected Model – ICM). This has been presented to GDNs in the Cost Assessment working group.

The re-run changes the comparative assessment results materially for other GDNs, and for us the penalty has worsened to -£5.5m overall.

In this consultation response we have set out material inconsistencies in the Cost Assessment methodology (i.e. LTS pipelines) which, once adjusted, will result in a change to our BPI assessment and could easily result in an improvement in our BPI score.

As we have demonstrated in previous controls and through market tender evidence, we are an efficiently run GDN that is delivering all our outcomes. Once the Cost Assessment team make the changes required to ensure a fair determination process has been completed, we expect our Comparative Assessment results to improve materially.

We also ask Ofgem to guard against mechanically rewarding GDNs for Cost Efficiency if those companies have a track record of not delivering on their commitments. Delivering on commitments isa responsibility that we have always fulfilled. a.

Bespoke Assessment:

As stated in our Exec Summary and our response to GDQ36, our LTS pipeline major projects should be separately assessed in line with treatment of major Capex projects for other networks. If this goes through the separately assessed process it would need to be included in the Bespoke Assessment section of the BPI and reward/penalty recalculated.

WWUQ3. Do you agree with our assessment results for WWU against Stage C of the BPI?

We do not agree, specifically in those areas where our plan was rated 'poor'. We consider that the evidence shows they should be rated 'acceptable'.

Clarity - Assessment result -2.8 bps

We analysed scoring for BPI-C across the GDNs and observe discrepancies in equity. We have concerns that assessing written pieces for clarity and accessibility is inherently subjective and could result in inconsistencies in outcomes, particularly if carried out by different assessors. We note the following:

- Both WWU and Cadent received similar feedback in draft determinations, highlighting issues such as readability of images, spelling errors, and text clarity. However, the outcomes for these two companies were significantly different and inconsistent. WWU were ultimately awarded an overall poor score, whereas Cadent received an outstanding score.
- Secondly, Cadent was provided the opportunity to resubmit its materials to address the feedback and improve its score, an option not offered to WWU. This disparity in both the final score and procedural fairness for two companies receiving comparable feedback, points to a significant inconsistency in the application of the assessment criteria and process.
- There are no standard phrases used in Ofgem's assessment feedback, with a wide variety of comments applied across GDNs, highlighting a spectrum of factors for praise and critique. The lack of standard phrasing and standard factors for feedback brings into question the rigour of Ofgem's methodology for this section and reaffirms the inherent subjectivity of assessing pieces of writing for clarity and accessibility.

WWU scored poorly in two weightings, 'Accessibility and conciseness' and 'Coherence and justification'.

Accessibility and conciseness, as per Ofgem's scorecard below, is addressed in two parts:

- Accessible language
- Page limits

Table 21 Ofgem's scorecard

Criteria	Outstanding	Acceptable	Poor
Accessibility and conciseness	All information provided in the Business Plan is presented in accessible language and only uses technical language where absolutely necessary (and explains technical language in plain English), meaning it can be clearly understood by all stakeholders. The Business Plan and its component parts do not exceed the page limits set out in Chapter 8 of the Business Plan Guidance	Information provided in the Business Plan is, for the most part, presented in accessible language, meaning it can be understood by all stakeholders. The Business Plan and its component parts do not for the most part exceed the page limits set out in Chapter 8 of the Business Plan Guidance.	Information provided in the Business Plan is not presented in accessible language and in many instances uses technical language that is not explained in plain English. The Business Plan and its component parts materially exceed the page limits set out in Chapter 8 of the Business Plan Guidance in places.

A 'poor' rating for WWU is incorrect, as there are substantial elements which do not apply to our plan:

1. Ofgem has pointed out areas in the plan that could have been presented in more accessible language, such as our Engineering Justification Documents and our Supplementary Question responses. We agree that the language of these documents is not fully accessible to all stakeholders; however, it is difficult to reconcile this feedback with the reality that many of the documents mentioned contain significant redactions that would make them inaccessible to any public consumers, regardless of their technical literacy. As this is a small portion of the breadth of documentation we submitted for our Business Plan, we consider this puts us into an "Acceptable" rating.
2. The second of the two elements refers to being over the allocated page count. We took care to adhere to page limits set out in the Business Plan Guidance (BPG), unlike submissions from other networks. As clearly stated by Ofgem's scorecard, this puts us in an 'Outstanding' rating for this point.

Overall, this should put us somewhere between 'Outstanding' and 'Acceptable'.

Coherence and justification, as per the below scorecard, is addressed in three parts:

- Coherence
- Justification
- Stakeholder engagement

Table 22 Ofgem's scorecard

Criteria	Outstanding	Acceptable	Poor
Coherence and justification	The Business Plan is a coherent product of its different parts and clearly demonstrates how and why the company will carry out the activities within it, including reference to stakeholder engagement where this is appropriate, via a clearly visible golden thread.	The Business Plan is coherent overall, but some parts lack a clear golden thread connecting them to the rest of the Business Plan. Proposed activities are justified, with reference to stakeholder engagement where appropriate.	The Business Plan is incoherent, lacking a clear thread that bring its different parts together. Activities are insufficiently justified, with limited or no evidence of stakeholder engagement.

In coherence and justification, one of the "poor" points describes 'limited or no evidence of stakeholder engagement.' In fact, we took care to reference our significant stakeholder engagement throughout. This is evidenced not only in most chapters, but also included in a dedicated section, Chapter 2.1, Consumer Voice, which outlines our approach to capturing and incorporating stakeholder input. Furthermore, we provided a structured review of our engagement in the Stakeholder Engagement and Decision Log, including the range of views received and the weighting applied to each, which directly informed our commitments. Therefore, the 'poor' rating is not appropriate.

In addition, Ofgem's assessment of our coherence and justification seems to be inconsistent with 'Section 1: Introduction' of their RIIO-GD3 Draft Determination Overview Document, where in section 1.12 Ofgem confirms this expectation was met successfully, "ISGs played a critical role in shaping company plans and providing independent assurance of their quality and focus. Thanks to their commitment and input, company Business Plans had been evidently well tested and scrutinised before submission to us."

In terms of the golden thread, we are concerned that Ofgem did not define their expectation in the BPG and did not thoroughly interrogate our plan for the extent of our golden thread, which we planned in detail and expressed throughout. Ofgem states UN SDGs were not mentioned consistently throughout our Business Plan – in fact, we introduce them on page 10 and include them in every section beginning. Ofgem state that commitments are scattered throughout our document and not easy to find. In Chapter 1.3, 'Our Plan at a Glance,' we purposely set out an overview of our commitments. In Chapter 2.2, 'Outputs and Incentives,' we describe the work we planned for RIIO-GD3 in terms of outputs. We also intentionally included commitments throughout our plan to describe the work we're committing to in each business area with further detail.

To obtain an objective assessment of our RIIO-GD3 Business Plan against the assessment criteria set out in the BPG annex 5, we instructed an external agency to initially provide an Artificial Intelligence (AI) assisted review. Following this, we asked them to compare the findings against Ofgem's draft determinations. The results of this exercise demonstrated there to be a clear narrative supported by a glossary of terms and plain English, leading to strong coherence and accessibility in our Business Plan. Furthermore, the external review found our commitments to be ambitious, well justified and supported by extensive engagement per guidance. Finally, the review found there to be a large discrepancy between this exercise and Ofgem's assessment due to a fundamentally different interpretation of clarity, coherence and ambition, despite the BPG annex 5 guidance. This further supports our concern around subjectivity, as detailed above. The full report from this exercise is available upon request from Ofgem.

Business Plan Commitments - Assessment result -0.975 bps

We agree with Ofgem's comments under "Secure and Resilient Supplies" and "High quality of service from regulated firms"; however, we are disappointed that Ofgem penalised us 0.975 bps with a failure for stretching targets and consider this to be misjudged. As one of the only companies to deliver all outputs in RIIO-GD2, it is necessary to remind Ofgem that stretching targets also need to be deliverable.

Our commitments were subjected to a rigorous and extensive process of stakeholder engagement and were signed off by our Independent Stakeholder Group (ISG). This comprehensive approach was designed to ensure that all commitments were not only ambitious but also well-justified and, critically, achievable. By involving our stakeholders and the ISG in the development and validation of our business plan, we ensured our targets reflect a balanced view of our operational capabilities and the expectations of those we serve. This collaborative process provided a robust framework for establishing targets that are both stretching and responsible.

Since Business Plans have been submitted, we have noticed NGN admitted on page 24 of their EAP document that they do not believe they will hit the BCF targets they have set themselves; while Cadent admitted in recent working groups that they do not believe their Electric Vehicle (EV) target is attainable. The risk of rewarding impractical targets is evidenced in Y4 Regulatory Reporting Pack (RRP) tables and discussed in the network Strategic Performance Overviews (24/25); with NGN failing their RIIO-GD2 BCF reporting output, and Cadent stating achieving the zero emissions commercial fleet PCD maximum is, "not currently logistically practical". The fact that both networks are continuing to put forward ambitious but impractical commitments reduces the effectiveness of rewarding networks that set the highest target if these targets are never followed through and penalises other networks that are benchmarked against unachievable commitments. We also consider that setting overly ambitious commitments without a clear pathway to deliver them poses a significant risk of increasing costs for energy consumers, as it requires higher allowances that may not result in tangible benefits. The only way to make this fair is to measure commitments through RIIO-GD3 and reward/penalise at the end of the price control through close-out.

Managing uncertainty

WWUQ4. Do you agree that WWU's Prepare the business for a net zero future proposal, in its current form, should not be eligible for NZARD UIOLI funding?

No, we do not agree. Ofgem has assumed that the proposed area of work in our Business Plan represents one project rather than a programme of projects and therefore the £2m threshold has been breached. This is not the case.

The proposed funding level provided in our Business Plan was a total for an area of activity, a programme of activity, which was built up from a number of potential individual projects. These individual projects did not breach the £2m project cap for NZARD UIOLI activity and should not have been disallowed.

This area is inherently uncertain and requires flexibility in planning to respond to policy, technology and customer developments. However, we provide a breakdown of the projects we currently expect to take forward as set out below.

These project areas have been revised to the activity which formed the basis of our Business Plan submission. The plans set out in the table following this narrative, are based on activity which is appropriate for NZARD UIOLI at this stage, recognising that it is uncertain and will be delivered in line with guidance.

As we set out in our Business Plan, stakeholder support WWU planning for future developments. Sustainability First have expressed concern that Draft Determination does not have sufficient focus on this area, suggesting that "Ofgem must also look more clearly towards the decarbonised future for gas that DESNZ signals".[99]

In some cases, we anticipate additional activity in the areas identified within RIIO-GD3, for which we would make a NZASP reopener application at the appropriate time or seek alternative funding. As required by Ofgem in its BPG we have assumed that activity solely related to the development of hydrogen infrastructure (not more general preparation for a range of scenarios) would be funded via non-RIIO-GD3 routes such as the Hydrogen Transport Business Model (HTBM) or other sources.

To achieve this aim we are asking for a total £8.09m across the 11 individual projects, none of which exceed the £2m materiality threshold of NZARD UIOLI. These different areas are detailed in the table below:

[99] Sustainability-First-DD-response-GD3-GT3-Final-190825.pdf

Table 23 Prepare the business for a net zero future category

Problem to be Solved	Challenges faced today	Evidence of challenge	Expected outcomes	Cost estimate (£m)	Proof of estimate
Settlement and data	We will need to work with industry to develop settlement arrangements, processes and systems to accommodate higher levels of blended hydrogen - up to 20% - and potentially to manage biomethane without requiring addition of propane. At a later date, it will be necessary to determine arrangements for 100% hydrogen. This is expected to be simpler; but it will still be necessary to amend systems to confirm the date and meter read for transition, and then to settle those meter points based on hydrogen rather than natural gas / blend.	Colleague engagement workshops held in RIIO-GD2 as part of our Business Evolution programme.	The key focus in this area is assumed to be additional workload to train our engineers on new measurement equipment. This is to measure hydrogen blend and facilitate implementation of revised settlement methodologies.	1.59	Based on the resources required to install and support additional measurement devices.
Robust engineering process, procedures and contingency planning in preparation for future changes	Our current policies, procedures for planning, design, build, operating and reporting on network performance do not cover requirements for repurposing or decommissioning networks. This can draw on and support industry-wide activity but is company specific. Action is required in RIIO-GD3 to enable delivery against future policy decisions and consumer choices which impact GDNs.	Colleague engagement workshops held in RIIO-GD2 as part of our Business Evolution programme were used to identify areas that would require changes.	Development of processes required for network repurposing or decommissioning. These will be new and required in RIIO-GD3 to prepare for future policy decisions from RIIO-GD4 onwards. These processes will enable us to deliver efficiently when such decisions are made.	1.3	The cost is based on previous work to assess the numbers of processes and procedures that need updating. This assumes a fixed contractor cost per document; shared funding with WWU picking up on pro rata basis for our network, and additional resource to manage the process.

Problem to be Solved	Challenges faced today	Evidence of challenge	Expected outcomes	Cost estimate (£m)	Proof of estimate
Transformation capabilities and a project management office	We will need new change management capability and Project Management Office (PMO) to programme manage / coordinate the transformation of our network between now and 2050 considering all aspects/impacts to prepare efficiently for future policy changes.	Colleague engagement workshops held in RIIO-GD2 as part of our Business Evolution programme.	The development of change managers to: work with industry on coordination, deliver change management within WWU, to deliver against future scenarios and policy developments, e.g. decommissioning or in preparation for repurposing.	1	Based on resource required to develop and support these new processes. This is lower than the total amount of resource required but we have recognised some would be funded via other mechanisms e.g. NZASP Re-opener, and further work may continue into RIIO-GD4.
Transformation capabilities internal and external comms	We will need to manage the significant increase in communications and develop the communications methods required to manage the transition. We will need a specific communications process for engineering colleagues and customer services office-based colleagues which is separate from customer services comms channels and new enquiries for green gas entry / blending.	Colleague engagement workshops held in RIIO-GD2 as part of our Business Evolution programme.	Identification of internal and external communication requirements for additional workloads, informed by increased customer support requirements due to the network transition.	0.8	Based on resource required to supplement the existing comms team. This is lower than the total amount of resource required but we recognise some would be funded via other mechanisms e.g. NZASP Re-opener, and further work may continue into RIIO-GD4.
Preparing asset management systems and data for future changes	We will need agility in our systems e.g. network analysis, mapping, control room so that we know in real time which parts of the network have been purged or remain on natural gas. These systems require development and testing so should be developed during RIIO-GD3 to support future changes.	Colleague engagement workshops held in RIIO-GD2 as part of our Business Evolution programme.	A suite of systems which will provide the necessary functionality and visualisation of our network through transition, enabling implementation of future policy decisions.	0.7	Based on resource required to develop internal processes and systems. This is lower than the total amount of resource required but we have recognised some would be funded via other mechanisms e.g. NZASP Re-opener and IT Capex programmes, so this is the incremental cost for the FTE to develop the new functionality. Further work may also continue into RIIO-GD4.

Problem to be Solved	Challenges faced today	Evidence of challenge	Expected outcomes	Cost estimate (£m)	Proof of estimate
Transformation capabilities and network planning	We will need robust network analysis and planning processes to develop the transition plan for higher biomethane scenarios, blended hydrogen, decommissioning or alternative network uses.	Colleague engagement workshops held in RIIO-GD2 as part of our Business Evolution programme.	The development and implementation of new analysis and network planning processes to ensure a safe and efficient transition.	0.7	Based on resource required to supplement the existing team. This is lower than the total amount of resource required but we recognise some would be funded via other mechanisms e.g. NZASP Re-opener, and work may continue into RIIO-GD4.
Developing company specific regulatory and finance approaches	We will need to develop internal processes, and the system to reflect revised financial frameworks - to ensure appropriate cost recovery and customer bills under future scenarios. This is company specific but would produce some learning outputs that could be shared with external parties.	Developing policies (e.g. reacting to developments expected from DESNZ Midstream Gas Update, June 2025). Colleague engagement workshops held in RIIO-GD2 as part of our Business Evolution programme.	Robust processes and systems updated in line with revised financial frameworks, enabling implementation of future policy decisions.	0.5	Based on resource required to develop internal processes and systems. This is lower than the total amount of resource required overall for this activity, but we have recognised some would be funded via other mechanisms e.g. NZASP Re-opener, and work may continue into RIIO-GD4.
Safety under a range of future gas industry scenarios	We will need to demonstrate the safety aspects of existing and new policies and standards to ensure safety under a range of future scenarios within the UK gas industry. As use of the gas system changes and future policy decisions are taken, new or revised safety cases and exemptions may be required, covering all aspects of operation through design, implementation, skills, competence, and human factors.	Colleague engagement workshops held in RIIO-GD2 as part of our Business Evolution programme.	Robust safety systems and documentation approved by the HSE for use to enable future policy decisions.	0.5	Based on resource required to develop internal processes and systems. This is lower than the total amount of resource required but we have recognised some would be funded via other mechanisms e.g. NZASP Re-opener, and work may continue into RIIO-GD4.

Problem to be Solved	Challenges faced today	Evidence of challenge	Expected outcomes	Cost estimate (£m)	Proof of estimate
Asset management and network infrastructure	We anticipate needing better information on our network to ensure it is fit for purpose to transport hydrogen blends and / or to confirm availability of valves and other equipment to support decommissioning or other uses of the gas network in future.	Information available from the Blending Implementation Programme; early high-level work considering decommissioning approaches.	Improved and new information on the characteristics of our network relevant to a variety of future of energy scenarios	0.4	Based on resource required to manage and undertake Asset Surveying with work beginning in RIIO-GD3 and continuing into RIIO-GD4
Workforce readiness and training	We will need to define our workforce requirements and develop recruitment and training programmes for current and new colleagues; understanding how their roles change if network use declines; blended hydrogen is incorporated; or the network needs to be prepared for future repurposing. We will consider multi-network / national recruitment and training, plus mutual aid for issues during roll out.	Colleague engagement workshops.	Identification of workforce and training requirements, and upskilling colleagues to deliver the additional workload associated with an increase in recruitment and changes to existing processes and workloads.	0.4	Based on resource required to develop and support these new processes. This is lower than the total amount of resource required but we have recognised some would be funded via other mechanisms e.g. NZASP Re-opener, and work may continue into RIIO-GD4.
Supply chains and partnerships	We need to work with suppliers for all aspects of procurement systems, to establish additional requirements for energy system transition beyond business as usual. This includes tools and equipment; stone; tarmac; pipe; valves, and boilers and vehicles.	Colleague engagement workshops held in RIIO-GD2 as part of our Business Evolution programme.	An appropriately sized procurement to administer the additional workloads from increased procurement due to network transition.	0.2	Based on resource required to supplement the existing procurement team. This is lower than the total amount required but we have recognised some would be funded via other mechanisms e.g. NZASP Re-opener, and work may continue into RIIO-GD4.
Total				8.09	

WWUQ5. Do you agree that WWU's Facilitate green gases proposal, in its current form, should not be eligible for NZARD UIOLI funding?

No, we do not agree. Ofgem has misinterpreted our Business Plan.

The proposed funding level provided in our Business Plan was a total for an area of activity which was built up from a number of potential projects. Each of these projects therefore would not breach the £2m project cap for NZARD UIOLI activity and should not have been disallowed.

This area is inherently uncertain and requires flexibility in planning to respond to policy, technology and customer developments, however we can provide an expected breakdown of the projects we expect to take forward.

While in principle a wider range of projects should be supported in line with our Business Plan and with Ofgem guidance on the eligibility of projects which prepared for repurposing (i.e. SSMD paragraph 4.11), we have revised our project list. This action is based on Ofgem's current statements from Draft Determinations which appear to rule out even work within the category of preparation for repurposing.

However, we have retained project areas related to hydrogen blending which should be supported through NZARD UIOLI given the higher maturity of policy in this space, as well as being in scope for the NZASP reopener if required. In addition to the potential for direct hydrogen blending connections to our network in RIIO-GD3; this DESNEZ consultation sets out a framework through which we could be receiving blended hydrogen from the Transmission System: Hydrogen blending into the GB gas transmission network: consultation document (July 2025).

In our Business Plan, we included projects in this proposal related to biomethane capacity, such as additional rollout of Smart Pressure Control. We have removed these from our NZARD UIOLI plans on the basis they would instead be in the scope of the new Biomethane Connections UIOLI allowance proposed in draft determinations, subject to our GDQ20 response. If the scope of the Biomethane Connections UIOLI allowance is not amended, additional NZARD UIOLI funding should be provided for capacity related activity, which is supported by our stakeholders as set out in our Business Plan.

This area is inherently uncertain and requires flexibility in planning to respond to policy, technology and customer developments, however we can provide an expected breakdown of the projects we expect to take forward. On this basis, our proposed project areas under this category now total £2.9m across 3 individual projects, none of which exceed the £2m materiality threshold of NZARD UIOLI, and are broken down as follows:

Table 24 Facilitate green gases category

Problem to be Solved	Challenges faced today	Evidence of challenge	Expected outcomes	Cost estimate (£m)	Proof of estimate
Understanding Practical Network Transition Activities	Throughout RIIO-GD2 we have gained a better understanding of demand profiles across industrial users and potential decrease in demand. If areas are to be decommissioned in a future energy scenario, practical understanding of the impacts and costs will need to be understood.	SWIC, HyLine South Wales, HyLine Gogledd, Conceptual plans, Sensitive User Study.	Understanding practical implications for decommissioning across the Network and management of different demand scenarios.	1.0	Based on experience of projects undertaken in RIIO-GD2
Decarbonisation demonstrator for network users	Evidence for infrastructure requirements for end users relying on the Gas Distribution network e.g. de-centralised green gas production e.g. bio gas, storage, balancing, interaction with other decarbonisation technologies.	Local Area Energy Plans (LAEP) work interactions. RIIO-GD2 Microgrids project and related work presenting needs case for demonstration.	Demonstration technology to support decarbonisation of a range of Network users.	1.0	Based on experience of projects undertaken in RIIO-GD2.
Follow on work from completion of the Blending Implementation Plan to undertake WWU specific analysis to prepare and provide evidence for a reopener.	Potential need for blending implementation early in RIIO-GD3 given ongoing policy development and industry implementation plan.	Blending implementation plan with wider learnings from government policy on blending at Transmission and Distribution (T/D) levels; and Real Time Settlement Methodology (RTSM) outcomes.	Facilitate blending in line with government policy decisions as they come.	0.9	Based on experience of projects undertaken in RIIO-GD2.
Total				**2.9**	

WWUQ6 Do you agree that WWU's Move towards an ultra-low emission fleet proposal should not be eligible for NZARD UIOLI funding?

No, we do not agree.

The proposed funding level provided in our Business Plan was a total for an area of activity which was built up from a number of potential projects. These are unique areas of work that cannot be combined and therefore, do not breach the £2m project cap for NZARD UIOLI activity - and should not have been disallowed.

In this area Operational Transport Emissions Reduction PCD acknowledges uncertainty for, "larger van types... and HGVs", and on this basis (as set out in OVQ3 and OVQ20), it is appropriate to use NZARD UIOLI and NIA funding for these purposes. Less certain Net Zero development and innovation funding will be required to support the development of solutions for our fleet. Note that our response in this section does **not** include potential funding required for Zero Emission Vehicle related infrastructure, which we identify in OVQ3 may be more appropriate to fund through NZARD UIOLI rather than the Operational Transport PCD.

We also note the UK Government's position as set out in their recent publication, Hydrogen update to the market: July 2025 which was published subsequent to Draft Determinations:

> *"Whilst the Government is technology neutral on zero-emission options, it is expected that battery electric will remain the dominant technology for cars, vans and buses. Hydrogen and its derivatives will have an important, complementary role to play in decarbonising heavier transport applications where the potential for electrification is more limited or uncertain and the availability of biofuels is constrained. This is particularly the case for uses with longer ranges, rapid refuelling requirements or greater energy density needs."*

Development indicates that hydrogen could, in future, be used as a fuel in sectors such as aviation, maritime and heavy goods vehicles – and, critically for WWU, in van market sectors that BEV technology cannot effectively fill. It could also be a key input to the production of other low carbon fuels for heavy transport such as ammonia and methanol in maritime, and sustainable aviation fuel for aerospace. It is important that our requirements – both in terms of the nature of our fleet, and the geographies we operate in – are taken into account to develop appropriate and efficient solutions.

In the group of projects identified in this category, we have also added Advanced Leak Detection (ALD) following the proposed approach in the Draft Determination to funding for ALD and the Digital Platform for Leakage Analytics (see GDQ2). Our stakeholders support WWU taking action to reduce emissions, and Sustainability First have identified this as a priority area for additional NZARD UIOLI allowances.[100]

This area is inherently uncertain and requires flexibility in planning to respond to policy, technology and customer developments, however we can provide an expected breakdown of the projects we expect to take forward. We're requesting a total £4.9m across the 3 individual projects, none of which exceed the £2m materiality threshold of NZARD UIOLI

[100] Sustainability-First-DD-response-GD3-GT3-Final-190825.pdf

Table 25 Reducing emissions towards net zero (transport and network) category

Problem to be Solved	Challenges faced today	Evidence of challenge	Expected outcomes	Cost estimate (£m)	Proof of estimate
Initial preparatory work for rollout through NZASP re-opener for advanced leak detection to lower network emissions	Leak surveying is a very manual process that will benefit greatly from scalable leak data analysis and data analytics to transform leak detection and repair, increasing safety and reducing emissions to support the journey to net zero.	Ofgem require us to use NZARD UIOLI for Advanced Leak Detection (ALD)	Increased safety and elimination of hazardous leaks through innovative technology e.g. cars, fixed sensors on PRIs and hand held detection devices.	1.9	Based on initial pricing of early trial equipment and quotes from suppliers.
Progress lower carbon HGV fleet	No operationally effective technical solution exists for decarbonising the WWU HGV fleet. All current early development technology is expected has significant additional costs so alternative low carbon options should be trialled By 2040 mandate – decarbonising HGV fleet over 26t GVW.	WWU HGV fleet represents 4% of the vehicles but uses 15% of the total diesel fuel.	Development of zero emission HGV technology – that can be applied to WWU HGV duty cases.	1.5	Engagement with manufacturers and developers with potential vehicle and refuelling available during RIIO-GD3.
Decarbonising heavier van fleet with requirements for towing and onboard power.	Making early progress with decarbonising van fleet where no operationally suitable BEV is available in foreseeable future. By 2035 mandate – decarbonising HGV fleet up to 26t GVW.	First Hydrogen trial February 2024 – refuelling at 350 bar, realised only 54% of vehicle range potential so development of higher-pressure refuelling will be required. Requirements already seen in our RIIO-GD2 Ford vehicle trial from Q3 2025 which requires 700 bar refuelling facility. HyHAUL Hydrogen Refuelling Station (HRS) will offer refuelling at 350 and 700 bar to suit different operating cases and may be suitable for parts of our WWU HGV fleet.	Demonstrating clustering of hydrogen vans. Inform policy around classification of zero emission vehicles. Developing additional applications for ultra-low emission transport fuel for other road vehicles and Non-Road Mobile Machinery (NRMM). Reduction of scope 1 emissions within efficient operating parameters.	1.5	Experience from delivering First Hydrogen trial in February 2024 and development work for longer term trial of Ford FCEV vans planned for autumn 2025.

Problem to be Solved	Challenges faced today	Evidence of challenge	Expected outcomes	Cost estimate (£m)	Proof of estimate
	No operationally effective technical solution exists for decarbonising the WWU HGV fleet. All current early development technology is expected has significant additional costs so alternative low carbon options should be trialled	WWU HGV fleet represents 4% of the vehicles but uses 15% of the total diesel fuel. Engagement with HyHaul has identified additional costs to trial low carbon option.			
Total				**4.9**	

WWUQ7. Do you agree that WWU's Improve energy system planning proposal should not be eligible for NZARD UIOLI funding?

No, we do not agree.

The proposed funding level provided in our Business Plan was a total for an area of activity which was built up from a number of potential projects. Therefore, each individual project within this area of spend does not breach the £2m project cap for NZARD UIOLI activity and should not have been disallowed.

This area is inherently uncertain and requires flexibility in planning to respond to policy, technology and customer developments, however we can provide an expected breakdown of the projects we expect to take forward which is outlined below.

This allowance is critical for us to discharge responsibilities we anticipate under draft RESP licence conditions, but where precise activity levels remain uncertain, including:

1. Full and active participation in the development of RESP methodologies (including expert participation in working groups)
2. Full and active participation in RESP development
3. Appropriate representation on Strategic Boards
4. Provision of energy system data.

NESO engagement and projects already require significant resource, and this is expected to continue through RIIO-GD3. In particular, the development of RESP at a local level, alongside its importance to feed into CSNP and SSEP. Please also see our response to GDQ4.

RESP related activity

The requirement as set out in the RESP Policy Consultation[101] to use 'best endeavours' to participate in the RESP process and provide intelligence to NESO requires resources and flexibility in order to respond as the requirements of these processes evolve over RIIO-GD3. The policy consultation notes Ofgem's view that engagement of DNOs and GDNs is "key to [RESP's] success", and we agree that is the case.

The draft RESP guidance document requires WWU to attend the meetings listed below for each RESP with which we engage. WWU operates in five RESP areas so we will be required to resource these meetings for five separate RESPs. The meeting frequency is as yet undefined; however, it is reasonable to assume that working groups and meetings to agree the provision of intelligence will be monthly and others will be at least quarterly.

1. Strategic Board (RESP Guidance Document paragraphs 9.7 to 9.10)
2. Bilateral meetings (paragraph 9.2)
3. Working groups (paragraph 9.2)
4. Meetings to agree provision of Intelligence (paragraphs 10.1 to 10.6)

While there are uncertainties about the type and level of activity which will be required, our project portfolio in RIIO-GD2 demonstrated the benefit of funding which supports our involvement in energy system planning projects, through collaboration with NESO and other partners.

[101] RESP - Policy consultation on licence modifications

Strategic Planning related activity

We further note that GDNs should be engaged and allocate resources to further support other NESO developments such as CSNP and SSEP.

It has already been clearly defined in CSNP methodology that the development of hydrogen networks will include transmission and distribution. The requirement to deliver, "Cooperation with NESO and Other Stakeholders" is recognised at Transmission level for input to energy system planning processes (Draft Determinations GT Annex p. 14-15). In particular as RESP develops, the same principle should apply; distribution networks will need to provide data to and engage with NESO plus other regional and local stakeholders to deliver shared goals.

Given the uncertainty regarding the cadence of meetings and information requirements around them, our NZARD UIOLI proposals are appropriate. Some relevant resource is included in our base Totex funding assumptions, for example around data and digitalisation, which will help support NESO requirements. The areas set out in our NZARD UIOLI proposals (further clarified in the table that follows this narrative) are more suitable for this mechanism than base Totex to balance the impact of potential requirements set out with the uncertainty on timing and level of input required. We will only take forward work that is required; and is beneficial to NESO processes, consumers, and stakeholders. Our stakeholders support WWU playing an active role in energy system planning and we note that Sustainability First have called for increased NZARD UIOLI funding for gas networks compared to Draft Determinations.[102]

Our estimated activity levels are based on support offered to NESO in RIIO-GD2, and to related energy systems planning processes, which have steadily grown during the period. Based on the experience we have developed through the creation of local area energy plans (LAEP) during RIIO-GD2, and the support required, we anticipate a variation of this to continue to allow integration of RESP and development of its methodology. As a result of this experience, we estimate that the required effort level to support RESP will equate to up to 4 FTE positions, and for NESO (including CSNP and SSEP functions) will equate to up to 1.6 FTE positions. These roles will facilitate appropriate levels of support, engagement and analysis; alongside supporting resource and funding for specific projects, in response to requirements as they develop through RIIO-GD3 from NESO and other stakeholders.

To this aim, the project areas we require funding to support are now very specific to the requirements as set out above and are therefore a reduction on the original business plan submission; a breakdown of this can be found in the following table which totals £4.67m across the 4 individual projects, none of which exceed the materiality threshold of UIOLI.

[102] Sustainability-First-DD-response-GD3-GT3-Final-190825.pdf

Table 26 Improve energy system planning category

Problem to be Solved	Challenges faced	Evidence of challenge	Expected outcomes	Cost estimate (£m)	Proof of estimate
Responding to LAEP actions and supporting other developments which may inform RESPs.	The largest blocker to actions identified in the LAEPs is access to finance. On average networks are named as either contributors or responsible parties for actions. To support the start of delivering these actions we need to support early net zero delivery projects, based on the 39 local authorities we serve.	LAEP processes across Wales in RIIO-GD2 with each LAEP time duration 50 hours for engagement and development	Delivery of supporting infrastructure.	1.40	Experience of prior LAEP support and projects related to LAEP delivery across the 39 authorities in areas we serve (see also notes earlier in this table). Estimated based on small projects in up to half of these to support RESP and other stakeholder requirements.
Support NESO RESP including creation calculations and post review process	Resource to support steering groups, working groups, methodology and pathways reviews, including: • Strategic boards • Bilateral meetings • Working groups • Provision of intelligence under 'best endeavours' or other obligations See also response above this table. .	NESO and Ofgem publications and experience of similar processes	Support the various functions of RESP development, complementing some limited use of base allowances for more certain activity such as the improvement of data management.	1.32	Expectations of RESP resource requirements as set out in the narrative before this table, including licence conditions requiring 'best endeavours'. The following has informed our understanding of potential resource requirements: WWU experience of LAEP processes across Wales; each LAEP time duration was 50 hours for engagement and development, and detailed analysis of RESP plans alongside local authority requests and feedback. The precise level of activity is uncertain, due to the relative immaturity of these proposals, so we consider this appropriate for NZARD UIOLI funding.

Problem to be Solved	Challenges faced	Evidence of challenge	Expected outcomes	Cost estimate (£m)	Proof of estimate
Long term development of skills related to energy system transition, to enable future changes	There is a need to train our staff in the growing area of green skills and to meet new challenges. This will require regional availability of training and education which can prepare for changes under future policy decisions. This should be developed in RIIO-GD3 so that skills are available to enact future policy decisions.	LAEP processes across Wales in RIIO-GD2 with each LAEP time duration 50 hours for engagement and development	Resource to support green skill development and integration into our current and future business which includes stakeholder events and material, and a small training package to support our workforce. Deployment on small scale (likely in a local authority or university setting) to offer a solution to commercial consumers.	1.00	Cost based on RIIO-GD2 costs of developing training packages, and similar resource for current business.
Support NESO strategic planning activities including CSNP and SSEP engagement	Resource to support steering groups, working and sub working groups, committees, methodology reviews, long term development statements against pathways, RFIs, consultation responses, data collation and network analysis. See also response above this table.	Experience of RIIO-GD2 and expectations of participation in CSNP and SSEP	Although we have requested some base allowances to support data and digitisation with a data manager and data triage manager which will support our open data and data sharing platform, additional resource will be required to support the various functions of NESO, CNSP and SSEP.	0.95	Based on an uplift on RIIO-GD2 activity and anticipated expectations of NESO, CNSP and SSEP to meet expectations and understand impacts on our network. The precise level of activity is uncertain, due to the relative immaturity of these proposals, so we consider this appropriate for NZARD UIOLI funding.
Total				**4.67**	

Cost of service

WWUQ8. Do you agree with our engineering assessment of WWU's RIIO-3 Business Plan?

The level of engagement with the Ofgem Engineering team throughout the period leading up to submission of our RIIO-GD3 plan, and also the feedback we have received leading up to, and since receiving the draft determinations has been helpful and constructive.

We broadly agree with the conclusions of the engineering assessment, based on the information we provided in our EJPs, and are currently compiling the additional information requested by Ofgem. In particular, to:

1. Fully justify workload changes between RIIO-GD2 and RIIO-GD3;
2. Provide additional asset health data; and
3. Fully explain alternative options considered along with workload volumes and costs.

We expect this additional information will enable further assessment leading to acceptance of our plans in full.

It is very concerning that in some areas workloads and costs have been fully disallowed, despite being significant throughout RIIO-GD1 and RIIO-GD2. Also, despite the needs case and optioneering being noted as partially justified as per Table 18 of Ofgem's Draft Determinations-WWU Annex.

We are also concerned that all replacement workload elements have been removed from our proposed Governors plan and that Ofgem favour refurbishment only - despite the replacement workload being consistent with levels in RIIO-GD1 and RIIO-GD2, and the detail we have provided on implementing a plan to progressively deal with obsolete installations.

All workloads are based on delivering compliance with the applicable regulations. In particular, our 'duty to maintain' our assets under the Pipelines Safety Regulations and the Electricity At Work Regulations, and to be a responsible operator. These regulations impose an absolute duty on us at WWU to ensure the safety of our assets that can only be satisfied by having a balanced risk-based plan of inspection, maintenance, refurbishment and replacement across all asset groups. It is untenable to exclude investment in any one asset group as has been proposed in the draft determinations.

Wholesale exclusion of investment in any particular asset group is also fundamentally at odds with the approach to asset stewardship detailed in ISO55001, an international standard to which our Asset Management System has been accredited since it was launched in 2014, and before that to PAS55 from 2008. We look forward to further engagement with Ofgem to enable workload and costs to be allowed in these areas in the Final Determinations.

It should be noted that while there have been no changes to the regulations, the Health & Safety Executive has been progressively challenging all GDNs on previously acceptable practices through their intervention programme. There has been an increased use of formal notifications such as Actions Legal / Improvement Notices to mandate these changes. This includes the relocation of mains in residential gardens into the public highway during replacement works and isolation of PE services in external meter boxes, among others. These changes in the enforcement of regulations by the HSE, have driven changes to workloads and costs that we have included in our plan, but have not been allowed in the Draft Determinations.

In the case of PE service isolations carried out in accordance with the Gas Safety (Installation and Use) Regulations, this has not only driven up the unit costs of each service we cut off, but it has also generated a new workload to revisit legacy PE service services that we have isolated at the Emergency Control Valve

(ECV) in an external meter box in previous periods. As stated in our response to GDQ25 it should be noted that this practice was consistently applied by all networks and deemed compliant by HSE in the past. Therefore, we have only been allowed these lower unit costs in the current and previous price controls, which has resulted in lower costs to the consumer. Since current HSE officials no longer consider this practice complaint we are waiting for their determinations on the approach they will be directing in respect of this legacy pot. It is imperative that a mechanism is in place to allow the corresponding workloads and funding to deliver this work.

Following our meeting with the Engineering Assessment team on 5th August 2025we have developed a suite of Annex documents, one for each EJP where workloads and costs were disallowed in the Draft Determinations. These documents have been structured, and their content is based on the feedback received in the bilateral meetings, and the written comments in the RIIO-3 Draft Determinations against each EJP in Appendix 1 – Summary of Engineering Review Table 18: Summary of WWU EJP Recommendations. They provide the additional data requested and further explanations to supplement the justifications provided in the original EJPs, to support the workloads and costs previously submitted.

The table below details the Annex documents provided.

Workload Area	Document Title	Related EJP (Submitted December 2024)
Multiple Occupancy Buildings	Appendix WWUQ8A- Multiple Occupancy Buildings	29. (IDP) Risers & MOBs- EJP
Multiple Occupancy Buildings	Appendix WWUQ8B- Risers identified for Intervention on High Rise and Medium Rise Buildings	29. (IDP) Risers & MOBs- EJP
Multiple Occupancy Buildings	Appendix WWUQ8C- Rises (High and Medium Rise) Confirmed MOB Population August 2025	29. (IDP) Risers & MOBs- EJP
LTS Pipelines	Appendix WWUQ8D- Distribution Pipelines	Engineering Justification Document WWU.3 – Distribution Steel Pipelines
Governors	Appendix WWUQ8F- Governors	25. (IDP) Governors- EJP
Governors	Appendix WWUQ8G- Appendix WWUQ8F GD & IC Gov Data	25. (IDP) Governors- EJP
Electrical and Instrumentation Assets	Appendix WWUQ8I- LTS AGI (E&I)	11. (IDP) LTS AGI (E&I) Offtakes, PRIs, Storage- EJP
Electrical and Instrumentation Assets	Appendix WWUQ8J- RIIO GD3 E&I EJP Asset Health Data	11. (IDP) LTS AGI (E&I) Offtakes, PRIs, Storage- EJP
Electrical and Instrumentation Assets	Appendix WWUQ8K- RTU General EOL Notice Final_2	11. (IDP) LTS AGI (E&I) Offtakes, PRIs, Storage- EJP
Electrical and Instrumentation Assets	Appendix WWUQ8L- FW Discontinuation letter FLOWSIC600	11. (IDP) LTS AGI (E&I) Offtakes, PRIs, Storage- EJP
Electrical and Instrumentation Assets	Appendix WWUQ8M- Update Notice of Changes in OMNI	11. (IDP) LTS AGI (E&I) Offtakes, PRIs, Storage- EJP
Electrical and Instrumentation Assets	Appendix WWUQ8N- Product Obsolescence Notice	11. (IDP) LTS AGI (E&I) Offtakes, PRIs, Storage- EJP
Electrical and Instrumentation Assets	Appendix WWUQ8O- RE EXT FW Faulty Watson Smith 422 ex IP unit delivery date for new units	11. (IDP) LTS AGI (E&I) Offtakes, PRIs, Storage- EJP
Local Transmission System	Appendix WWUQ8P- LTS Pipelines	5. (IDP) LTS Pipelines - General Pipelines- EJP
Offtakes, PRIs & Storage	Appendix WWUQ8R- Offtakes, PRIs & Storage	13. (IDP) LTS AGI (Mech) Offtakes, PRIs, Storage - EJP

Workload Area	Document Title	Related EJP (Submitted December 2024)
Mains Replacement	Appendix WWUQ8S- Iron Mains Programme 2026-31 Tier 2a April 2025	18. (IDP) Mandatory Programme (incl. Stubs)- EJP
Mains Replacement	Appendix WWUQ8T- Likelihood of Failure Report	18. (IDP) Mandatory Programme (incl. Stubs)- EJP
Mains Replacement	Appendix WWUQ8U- Likelihood of Ignition Report	18. (IDP) Mandatory Programme (incl. Stubs)- EJP
Mains Replacement	Appendix WWQ8V- Likelihood of Ingress Report	18. (IDP) Mandatory Programme (incl. Stubs)- EJP
Mains Replacement	Appendix WWUQ8W- Non Mandatory Mains Replacement CBA	20. (IDP) Non-Mandatory Programme (Iron Steel) - EJP
Mains Replacement	Appendix WWUQ8X- Non-Mandatory Mains	20. (IDP) Non-Mandatory Programme (Iron Steel) - EJP

Innovation

WWUQ9. Do you agree with the level of proposed NIA funding for WWU?

No, we do not agree with the level of funding proposed, because the NIA allowance is too low and the funding criteria too narrow.

This is also outlined in our response to question OVQ20, where evidence including from the 2025 CCC progress report highlights key areas that have inherent uncertainty where innovation will be required. These areas are supported by the views of our stakeholders and consumers as referenced in our Innovation Strategy document. We need to address regional challenges and how we provide a just and fair Net Zero transition for our consumers that considers optionality and choice at lowest cost.

To deliver this our Network Innovation Allowance in RIIO-GD3 should be increased to allow for activity the following areas:

1. Supporting NESO innovation activities to support strategic and regional planning and developing our own projects where appropriate.
2. Supporting the ongoing development of green gas by innovating around connection, capacity management and storage, for biomethane and hydrogen blending.
3. Operational emission innovation developing technologies and processes which can reduce operational emissions, where electrification options are not currently available.

Supporting evidence on each of these areas and their anticipated benefits is provided in the table following this narrative along with the funding request for each area. This totals £9.75m in addition to the Draft Determination proposed funding level of £11.8m.

This total is lower than our Business Plan proposal for NIA funding, mostly as we note Ofgem's confirmation that activity related to 100% hydrogen should not be in scope of NIA. However, our view remains that this has adverse implications for potential network repurposing in future. To account for the potential for future changes in policy we now suggest that Ofgem retains a RIIO-GD2 Hydrogen Innovation (HYINT) funding or NIA review similar to the Electricity Distribution (ED) NIA proposal, during RIIO-GD3 to address uncertainty that will:

1. Enable networks to apply for additional innovation funding should NIA funds be insufficient; and
2. Allow flexibility for any dedicated hydrogen projects that are required on the basis of policy changes.

Ofgem should reconsider the quality score of our Innovation Strategy in response to 6.5 assessment for overall quality of our Business Plan submission. To support this, we have provided some additional information in Appendix WWUQ9A.

Table 27 NIA funding request

Innovation Area	Case For Funding	Evidence For Funding	Cost Estimate (£m)
Improving Energy System Planning e.g. NESO Related Activity	Currently, if NESO require any network participation in energy planning innovation activity funded through NIA, networks would be unable to support with funding or resource to initiate and progress these projects - that will be contributing to Future of Energy Scenarios (FES) or whole system planning. To continue to develop and participate in collaborative projects and support NESO, NIA funding is required. This will not duplicate NESO led work – it will enable GDN participation. We will continue to develop innovation governance processes which include NESO to avoid unnecessary duplication.	During RIIO-GD2 project delivery, we have provided NESO with learning from a number of WWU led innovation projects. Currently, we have three live projects that directly support engagement and collaborative development of work with NESO. These include the SIF project led by NESO – Powering Wales Renewably, which we expect to continue into RIIO-GD3 and potentially develop into future project(s) for SIF or NIA funding. In addition we are looking to initiate a project assessing consumer behaviours to a just transition, supported by NESO and our Energy Plan translator project. This will use Artificial Intelligence (AI) and large language models to interpret and understand energy plans and strategic plans across our region, again supported by NESO as part of a working group to develop a model suitable for wider use across networks.	4.35 Based on Draft Determinations this is reduced by £1m from original business plan, removing a work area related to 'uncertainty on heat policy and domestic customer choice'. This is an example of a project which could be considered in future under a HyINT style mechanism as explained above.
Facilitating Green Gases	Enabling green gas is likely to require innovation not only for biomethane but also for use of green gases in electricity generation; hydrogen blending, and areas that will also benefit decommissioning research. Scenarios where more decentralised sources of gas are supplying networks which may see reductions in demand, will require innovation to manage seasonal demand swings and continue to increase volumes of green gas.	NIA enables networks to accelerate and pivot quickly pending new learning or policy decisions. Funding in these areas would enable us to respond to market direction and signals quickly and efficiently.	1.50 Based on the 'blending implementation' work area from our original business plan.
Ultra-Low Emission Transport	Our position remains that NIA allowances should be provided for transport fleet decarbonisation, where ultra-low emissions vehicle options are not available on the market. In the section on Operational Transport Emissions Reduction PCD (Overview Document) Ofgem accept that, "larger van types... and HGVs are the most challenging areas for ZEV availability," and call for more information around those challenges - which we have provided in response to OVQ3 and in the associated appendix.	NZARD UIOLI and NIA are appropriate funding routes to progress developments in this space, which will support the efficient decarbonisation of network operations, given that there are not sufficient ZEV options for all of our fleet at present.	3.90 This amount is consistent with our original business plan.
Total additional NIA above DD funding allocation			9.75

Data and Digitalisation

WWUQ10. Do you agree with our proposed level of funding for WWU data and digitalisation investments?

We welcome Ofgem's decision to fund the majority of our data and digitalisation investments. However, we have two concerns.

1. Data & Digitalisation (D&D) should not be included in regression models. Within RIIO-GD2 D&D was separately assessed through re-openers. It has been technically assessed by experts and is based on the specific requirements of each GDN. The variations in costs across GDNs are not well represented by the regression model cost drivers, and the spend is relatively new to the GDNs with very little outturn cost and predominantly forecast cost. By keeping D&D costs in the regressions (post-exclusions) it does not account for the economies of scale assessment as is correctly applied within the Cyber assessment. Given all these factors, it is incorrect for Ofgem to then leave this cost within the Regression models and Ofgem is required to reconsider this position.
2. We had investment for the NESO driven digital twin removed due to lack of detail on scope and timelines. We are working with NESO on a joint digital twin innovation project, which will inform scope and timelines but will not have this for DD response. Therefore, we require the digitalisation re-opener to allow for spending on the digital twin

RIIO-GD3 Draft Determinations Finance Annex Response

Legal Notice

The responses by Wales & West Utilities Limited ("WWU") to Ofgem's Draft Determination questions FQ1 to FQ36 are set out below. Your attention is specifically drawn to the legal notice set out on the inside cover of WWU's response to the Draft Determination. This is applicable in full to WWU's responses to FQ1 to FQ36, as though set out in full here.

WWU is the claimant in a judicial review to be heard in the High Court of England and Wales scheduled for early October 2025. The claim is against the CMA in relation to (among other things), in its final determination of the RIIO-GD2 appeal against Ofgem: its interpretation and application of the statutory finance duty at section 4AA(2)(b) of the Gas Act 1986; its treatment of the cost of debt; and its approach to tax clawback. Ofgem is participating as an active interested party to the claim and is familiar with the legal case being advanced by WWU.

All of these matters before the High Court are of direct relevance to WWU's Business Plan, Ofgem's assessment of it, Ofgem's Draft Determination and WWU's responses to it. WWU considers that Ofgem should have full regard to the detailed legal case being advanced in the judicial review proceedings – which is of equal application to Ofgem – and should act in accordance with it when making decisions for the purposes of RIIO-GD3 so as to avoid falling into legal error. WWU reserves all of its statutory and public law rights should Ofgem fail to do this.

However, it is not the function of WWU's responses to Ofgem's Draft Determination to relitigate issues which are already before the Court or to repeat the detailed legal case fully pleaded in the judicial review proceedings. It follows, however, that, to the extent that –

- WWU's responses to FQ1-FQ36 involves inconsistency with the detailed legal case that WWU is advancing in the judicial review proceedings, and/or
- the legal arguments in that case are not fully reiterated within those responses,

WWU's responses should be treated as having been submitted entirely without prejudice to the current and ongoing judicial review claim and to the remedies which are sought by WWU in that claim.

External consultant reports included on our responses.

These are as follows:

RIIO-GD3 : EXTERNAL CONSULTING REPORTS ON COST OF CAPITAL - RESPONSE TO DRAFT DETERMINATION					
	Subject	Type	Status	Scope	Sender
1	RIIO-GD/GT3 cost of equity and debt premium cross check : report for FEN	Expert report	Public	GDN/GT sectors	WWU
2	Updated Cost of Equity cross-check evidence : report for FEN	Expert report	Public	GDN/GT sectors	WWU
3	Cross checks standards of evidence : report for ENA and FEN	Expert report	Public	GDN/GT/ET sector	WWU
4	Cost of Equity for RIIO-3: (i) Gas .v. Electricity and (ii) MFM cross check	Expert report	Public	GDN/GT sectors	WWU
5	Dividends in RIIO-GD/GT3 prepared for FEN	Expert report	Public	GDN sector	WWU

These reports form an integral part of our responses to the Draft Determinations in the Finance Annex. They build on evidence submitted with our Business Plan to Ofgem in December 2024.

The reports are contained in the list of appendices.

We ask Ofgem to treat and review each report as an integral part of our responses. As we note in our response to FQ12, these reports strongly signal a level of required equity return that is significantly higher than Ofgem's 6.04% (real, CPIH) and comfortably support our Business Plan rate of 6.89% (real, CPIH).

All cost of equity figures below are in real CPIH terms, unless stated otherwise.

Allowed return on debt

Given the Judicial Review pending, and the fundamental differences on cost of debt between Ofgem and WWU continuing, our responses to Ofgem's questions revert to our legal position. In addition, we make the following points:

1. In paragraph 2.133, Ofgem states that under WWU's approach, companies could not out/underperform the allowance. That statement is factually wrong. Under WWU's proposed approach, the bases for out/under performance were provided to Ofgem and the CMA in the RIIO-GD2 appeal and as WWU's approach on these matters remain unchanged, we will incorporate them by reference.[103]

2. In paragraph 2.136, Ofgem states that it does not consider an instrument efficiency test would be robust or proportionate because parameters other than pricing (i.e. timing, currency, tenor, intention, supporting terms) would need to be assessed. As to this, we make the following points:

    a. Ofgem carried out a point in time test for embedded debt across 3 sectors for RIIO-GD2 for a £23 billion debt pool, "…to provide comfort that instruments we were including in our allowance calibration exercise were transacted at market rates at the time". [104] Yet it abandoned this test for RIIO-3. No rationale for this regulatory change was provided in the Draft Determination. It provided the following response after questioning by Future Energy Network (FEN) members [105]: "This assessment was not conducted as we did not consider it was required particularly in context of the wider review of the data, company debt bi-laterals and the methodology we have chosen to adopt in order to assess an efficient allowance (notional approach targeting forecast average efficient debt costs)."

    It is not easy to reconcile that response to paragraph 2.136. Notwithstanding that, if the only reasonable inference that may be drawn from that explanation is that a market benchmark rate by reference to a suitable index at the time of issuance is no longer considered by Ofgem to be relevant for efficiency assessment at any level of calibration, and given the relative scale and importance of the revenue allowance for cost of debt, it is not apparent how Ofgem gave proper regard to protecting consumer interests. Ofgem

[103] See ((i) WWU's Notice of Appeal to the CMA for RIIO-2, section A7.3 and the Oxera cost of debt reports dated 4 June 2020, and 2 March 2021, section 6. WWU's Business Plan submission, Finance Annex, section 9 (1)(a) confirmed that WWU's approached remain fundamentally unchanged from RIIO-2. WWU provided an updated cost of debt report dated 13 November 2024 to Ofgem as part of its Business Plan Submission and which evaluated the efficiency of the cost of debt and derivatives.
[104] RIIO-2 Draft Determinations – Finance Annex, paragraph 2.51
[105] Provided by Ofgem to FEN members via email on 10 July 2025.

calibrated the GD3 cost of debt allowance for embedded debt to an average of actual debt costs of companies in the gas distribution and transmission sectors and side stepped any point in time efficiency testing for that debt.

b. After abandoning any form of instrument point in time efficiency testing for embedded debt, Ofgem then, inconsistently, applied a point in time instrument pricing test for establishing a gas network premium ("GNP") of 25 bps. [106]

c. Ofgem references a concern about timing when market conditions are under stress. As Ofgem is aware, market conditions can also go through periods of benign pricing. Nonetheless, Ofgem could apply parameters on its "timing" concern (as it has done for establishing a GNP calibration adjustment, where it excluded some debt issuances during H2 2022 when market yields were temporarily elevated) if it were to establish a company specific allowance based on point in time testing, i.e. closer to WWU's approach. As for the parameter "intention", if Ofgem is suggesting that there may be circumstances where the use of funds from any debt raised by a network would somehow disqualify the cost of that debt from an allowance, then it can regulate for it but in any case it does not distinguish between point in time testing and Ofgem's approach and therefore is not relevant. Likewise for any "supporting terms". Overall, Ofgem's comments on non-pricing parameters are not persuasive to preclude point in time testing and align more towards WWU's approach. And it had no difficulty in a point in time test to establish a GNP adjustment.

d. Finally, in paragraph 2.137 Ofgem argues that when evaluating efficiency, licensees can benefit from information asymmetry. It is not clear what the basis of Ofgem's concern is on this point and again it does not distinguish between point in time testing and its approach. Most licensee debt instruments, by value, are public bonds, where, except in rare circumstances, terms and conditions are invariably uniform apart from observable price and tenor. For privately raised debt, largely represented by privately placed notes with institutions, these lenders require various due diligence processes to be completed before transacting, limiting asymmetry. Pricing, timing and tenor of those transactions are typically published in statutory accounts of licensees. In addition, Ofgem can always interrogate terms and conditions if there is a concern or establish rules which if breached during a control period can be applied ex post to adjust the allowance.

e. In summary, Ofgem's reasons to preclude point in time testing for efficiency are not persuasive.

FQ1. Do you agree with our approach to estimating efficient debt costs and calibrating the index?

Please refer to WWU's legal notice at the outset of this section.

[106] RIIO-3 Draft Determinations – Finance Annex, paragraph 2.25

FQ2. Do you agree with our proposal to use a combination of iBoxx GBP A and BBB 10+ non-financial indices rather than the iBoxx GBP Utilities 10+?

Please refer to WWU's legal notice at the outset of this section.

FQ3. Do you consider our proposed notional ILD assumption to be appropriate?

Please refer to WWU's legal notice at the outset of this section.

FQ4. Do you agree with our approach to setting the additional cost of borrowing allowances?

Please refer to WWU's legal notice at the outset of this section.

For the avoidance of doubt, under WWU's approach, efficiently determined additional costs of borrowing, small company premium, and gas network premium would be allowed on a company specific basis, using point in time assessment. We therefore do not comment further on these matters given the differences with Ofgem's approach and our legal notice at the outset of this section.

FQ5. Do you agree with our proposed treatment of inflation with respect to the allowed return of debt?

Please refer to WWU's legal notice at the outset of this section.

FQ6. Do you agree with the removal of the infrequent issuer allowance?

Please refer to WWU's legal notice at the outset of this section.

For the avoidance of doubt, under WWU's approach, efficiently determined additional costs of borrowing, small company premium, and gas network premium would be allowed on a company specific basis, using point in time assessment. We therefore do not comment further on these matters given the differences with Ofgem's approach and our legal notice at the outset of this section.

Allowed return on equity

Before we respond to the questions presented by Ofgem, we raise concerns relating to Ofgem's treatment of evidence.

As a matter of background, Ofgem states that its financial framework is stable and predictable.[107] Further, it said: "We agreed that stability in the overall regulatory framework can be important to investors. However, we will always act on the basis of the evidence and will look to make changes and improvements that will help improve our ability to discharge our duties. "[108]

[107] RIIO-3 Draft Determinations - Finance Annex, paragraph 1.4
[108] Ibid, paragraph 3.79

These are important statements and, particularly in a context where gas sector risks are increasing from RIIO-GD2 to RIIO-GD3, it is essential that Ofgem undertakes to inform itself as to, and act on, that evidence, in the context of discharging its statutory duties.

It follows that Ofgem's discharge of those duties will be undermined if evidence is not appraised, analysed and taken into account on a fair and objective basis. Fairness and objectivity requires that Ofgem should, at a minimum, consider and respond to evidence submitted to it and make determinations that are proportionate, consistent and transparent in the light of that evidence. We ask Ofgem to consider the following matters:

1. Responding to evidence. Ofgem should respond to the evidence submitted to it. For example, it did not respond to important market-based evidence relating to correlation strength between betas of US and European gas companies. Nor did it respond to evidence of asset beta's determined by European regulators for gas companies, i.e. "regulatory precedents". [109]

2. Consistency in treating evidence. There are inconsistencies in the Finance Annex which are not isolated and immaterial; on the contrary, they are significant and are most evident in Ofgem's considerations on cross checks. For example, its MARs cross check embodies the Dividend Growth Model ("DGM"), yet Ofgem expresses concern about the use of the DGM in the TMR tracker model designed by Frontier Economics ("Frontier"). More generally, and noted by Frontier, Ofgem deploys reservations to consultant cross checks (none of those cross checks were accepted by Ofgem) which could similarly apply to its own cross checks.

3. Transparency with evidence: Ofgem's approach lacks transparency. For example, its OFTO bid estimate of 5.7% taken from its chosen time period 2022 to 2024 does not disclose the year-by-year trend over that time period, during which market pricing conditions increased significantly. Yet Ofgem showed a year-by-year trend for the same cross check in its Draft Determinations Finance Annex for RIIO-2.

Finally, Ofgem's rationale lacks transparency. In paragraph 3.85, it states that it "…will use cross-checks to ensure that our CAPM-based estimate of the cost of equity is not materially insufficient nor excessive." [110] It concluded that its Cost of Equity cross-check range of 4.2%-8.5% demonstrates its CAPM Step 1 range of 5.06% to 6.96% is sensible.[111] But it did not provide a rationale to justify why that cross check range supported its point estimate of 6.04%. The overall weight of those cross checks, when expressed in terms of simple averages, suggest their range is 6.1% to 6.5%, i.e. above the point estimate of 6.04% and the lower bound of its CAPM range. Ofgem had nothing to say about that. Ofgem should state clearly how cross check evidence should change Step 1 point estimates and how it weights this evidence. Separately, Ofgem selectively uses UKRN guidance, as highlighted by Oxera, but there is no explanation for this selectivity.[112]

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[109] Noted in the Oxera report : Appendix FQ6A - RIIO-GD&GT3 cost of equity and debt premium cross-check, pages 5 and 6

[110] Its intent to check the point estimate is also stated in : RIIO-3 Draft Determinations – Finance Annex, paragraph 3.4

[111] Ibid paragraph 3.91

[112] Appendix FQ6A - Oxera report : RIIO-GD&GT3 cost of equity and debt premium cross check, page 42. "We note that, while Ofgem relies on UKRN guidance to justify the use of both ex ante and ex post TMR approaches, it does not address the concerns about the 'through-the-cycle' approach highlighted in the UKRN guidance".

We assume the above shortcomings may have been inadvertently made by Ofgem. If so, they can be easily unpacked and resolved in its Final Determinations. If, however, those matters were of deliberate choice, Ofgem should make full disclosure of its reasons. Otherwise, it is difficult to see how Ofgem's handling of evidence can enable it to discharge its statutory duties. Either way, the overall weight of evidence on cost of equity clearly supports a much higher allowed rate than Ofgem's 6.04%.

Allowed return on equity

FQ7. Do you agree with our methodology for calculating the RFR?

We have two points:

a. We ask Ofgem to reconsider its exclusion of the convenience premium as the evidence base for the convenience premium is compelling.[113]

b. Ofgem states that using the BoE long run assumption of 2% may understate CPIH and consequently it will review whether an adjustment to the inflation wedge (based on using the BoE's long run assumption of 2%) would be warranted following the OBR's long run CPIH/CPI wedge projection of 0.4% published in October 2024.[114] This adjustment would not be robust or justified. Oxera provides a comprehensive rebuttal to this matter, and inter alia, comments: "Finally, the OBR has started to publish CPIH forecasts only since its October 2024 report. As a largely untested measure, it lacks the track record and evidential basis needed to support regulatory application. Therefore, introducing a CPI–CPIH wedge into the regulatory framework should not be done without robust and tested evidence of a predictable level of the wedge, at this stage."[115]

For evidence and rationale supporting WWU's stance on RFR in CAPM, please refer to the Oxera report included in our response and in particular, Section 2 of that report and the relevant part of the executive summary.[116]

FQ8. Do you agree with our methodology for calculating the inflation wedge?

Please refer to our response to FQ7.

FQ9. Do you agree with our methodology change in calculating the ex ante TMR?

We agree with the proposed changes, i.e. removal of COLI-CED and serial correlation adjustments. This is in line with Oxera's report on the SSMD for the ENA. [117] However, we do not agree with Ofgem's equal weighting to the ex-ante approach and the ex-post approach. Oxera comment, inter alia: "…we continue to suggest that Ofgem should inform its TMR range predominantly on the basis of the one-year arithmetic mean approach, and place little to no weight on historical ex ante approaches." Please refer to Oxera's report for supporting rationale and evidence.[118]

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[113] RIIO-3 Draft Determinations – Finance Annex, paragraph 3.22
[114] Ibid, paragraph 3.18
[115] Appendix FQ6A - Oxera report : RIIO-GD&GT3 cost of equity and debt premium cross check, section 2.2
[116] Ibid, section 2
[117] RIIO-3 Draft Determinations – Finance Annex, paragraphs 3.39 and 3.40
[118] Appendix FQ6A - Oxera report : RIIO-GD&GT3 cost of equity and debt premium cross-check, section 3.3

FQ10. Do you agree with our methodology for estimating beta?

We agree with the methodological choices proposed in paragraphs 3.51, 3.53 and 3.54 of the Draft Determination Finance Annex, covering timeframe and measurement frequency, equity market index, gearing and debt beta. This is consistent with Oxera's approach.[119]

FQ11. Do you agree with our proposed set of comparators which also incorporates selected European utility stocks?

We do not agree. An international gas specific data set of comparators is appropriate for the GDN sector. Ofgem's inclusion of UK listed water companies, National Grid, and European electricity companies, results in a comparison set that is dominated by non-gas companies and comparatively few European gas comparators. Consequently, this is likely to underweight gas specific risks. Oxera agrees with this position: "This is because of the weight it attributes to non-gas evidence at a time when risks are diverging between gas and the other sectors, and because forward-looking risks may not be fully priced in historical betas. Therefore, picking an asset beta allowance at the low end of this range (i.e. 0.375-0.45) is likely to underestimate the asset beta of gas networks.". [120]

Oxera conclude as follows: "Considering the higher levels of risk to which gas networks are exposed as a result of the energy transition, we consider that a point estimate towards the top end of the asset beta range proposed by Ofgem in the RIIO-3 DD would be consistent with Ofgem's expectation that 'higher levels of risk exposure to be accompanied by an offsetting increase in expected returns (i.e. a higher cost of equity).'While Ofgem considers that, after performing its step-2 cross-checks, its current proposed cost of equity is sufficient, we note that an asset beta range of 0.375–0.45 for RIIO-GD/GT3 is consistent with Ofgem's statement on picking an asset beta point estimate that is not at the midpoint of its proposed range. We also consider that, by giving a predominant weight to the asset beta of European gas networks and some weight to US betas and European regulatory precedents, a point estimate within our proposed 0.40–0.44 gas-specific asset beta range would be appropriate."[121]

Expanding the set of comparators to include US gas listed companies is appropriate, supported by the strong correlative strength observable between US and European gas company asset betas. Ofgem dismissed US asset beta evidence due to "differences in regulation and net zero risks"[122], but it did not present any evidence to support this statement. We consider that US gas network comparators bring informative value to the task of positioning for an appropriate gas specific beta range and we ask Ofgem to review its position on this matter. Oxera respond to Ofgem's position on page 6 and to Ofgem's overall position in section 4.3 (updated empirical evidence on US gas network comparators) and 4.4 of its report.

The US data strongly supports Oxera's gas specific asset beta range of 0.40-0.44, and the evidence and rationale supporting it.[123]

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[119] Ibid, section 4.2.1, page 52
[120] Ibid, section 4.4.2, page 65
[121] Ibid, section 4.4.2, page 66
[122] RIIO-3 Draft Determinations – Finance Annex, paragraph 3.66
[123] Appendix FQ6A - Oxera report : RIIO-GD&GT3 cost of equity and debt premium cross-check, section 4.4

FQ12. Do you agree with the conclusions we have drawn from our chosen cross-checks?

We do not agree.

Summarising the quantitative outcomes from consultant cross checks followed by Ofgem's cross check outcomes:

Consultant COE cross checks	Notes	Consultant	Low	High	Average
Hybrid Yield Bond - implied cost of equity		Frontier	6.10%	8.30%	7.20%
Unadjusted Infrastructure fund implied equity IRR	1	Frontier			9.60%
MARS cross check	2	Frontier	4.85%	9.69%	7.27%
Sizewell C : Centrica 15% equity interest	3	Frontier	8.00%	10.00%	9.00%
Long term profitability benchmarking		Frontier	5.60%	8.80%	7.20%
Minimum implied COE under ARP-DRP	4	Oxera			6.43%

Notes :

1. Significant upward trend since March 2022
2. See WWU comments below on Ofgem's MARs cross check
3. The allowed rate is 10.8% at 65% gearing, and Centrica's IRR's seem conservative in that context
4. The ARP-DRP range is : one month : 5.89%, one year : 6.3% and 5 year : 6.43%. The ARP-DRP test is passed when the range is exceeded by the allowed cost of equity

Ofgem's COE cross checks	Low	High	Average
MARS cross check	4.20%	6.20%	5.20%
OFTO bid IRR's			5.70%
Unadjusted Infrastructure fund implied equity IRR			8.50%

- Cross checks show that Ofgem's midpoint estimate of 6.04% is too low – it is significantly below the midpoint of Frontier's cross checks, including MARs.

- Oxera's ARP-DRP cross check[124] shows that Ofgem's midpoint 6.04% fails the test.[125] Oxera concluded that this 6.04% estimate and bottom half of Ofgem's range are too low.[126]

- Ofgem's MARs cross check bears particular scrutiny. Frontier expresses serious reservations about MARs, nonetheless it includes this Ofgem cross check, but recalibrated, in its assessment, to present a wider range for consideration, which we agree with. (We note Ofgem dismissed all cross checks except its own.) Ofgem's cross check is based on three listed UK water companies used by Ofwat in its MAR's estimates. There are valid concerns about the use of MAR's generally as a cross check as

[124] Appendix FQ6A - Oxera report: RIIO-GD&GT3 cost of equity and debt premium cross-check, section 6, pages 79-80. In WWU's view, this is powerful debt based cross check when interest rates are high. Oxera comment; "As it is a method that allows the lower bound for the appropriate CoE to be identified, the ARP–DRP cross-check is a way to identify the understated returns—i.e. the cross-check is most likely to be binding when interest rates are high. In other words, the ARP–DRP test helps to identify whether relying on the through-the-cycle approach in setting the CoE is likely to go against networks' investability in a specific price control period."

[125] Ibid, section 6

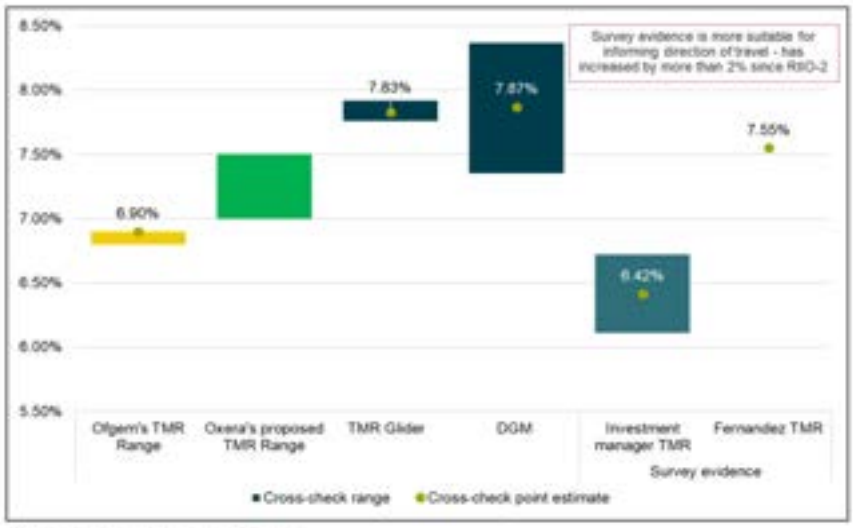
[126] Ibid, page 9:"we conclude that Ofgem's CoE allowance range from the lower bound of 5.06% to midpoint estimate of 6.04% is set lower than required by investors to compensate them for the addition risk of investing in equity compared with debt."

noted by Frontier. But it is especially difficult (if not implausible) to reasonably and reliably infer a cost of equity for gas companies from a relatively small number of companies in a different sector, with relatively modest premia on average on a traded basis, and who tend to outperform. Even if it were somehow possible to reliably make that inference, Ofgem's 6.04% lies well down in the lower bound of Frontier's range. Therefore, in these circumstances, we ask Ofgem to explain why this cross check is sufficiently credible to be considered eligible in principle for GDN companies, before any judgement could be applied to weighting it.

The cross checks above relate to cost of equity. One reason why Ofgem's proposed 6.04% rate is too low likely stems from a TMR that is too low in its Step 1 calibration.

- Frontier conclude: "The TMR Glider value from March 2025 of 8.0% and the 2-year moving average of 7.8% both suggest that Ofgem's historical TMR of 6.9% is materially below market expectations."[127] The results of Frontier's work on TMR cross checks is shown below.

Figure 4 Ofgem DD TMR estimates against cross-checks (CPIH-real)



Source: Ofgem, Frontier analysis, Oxera

Note: TMR Glider range represents the 20-80th percentile range over the last 24 months, which is 7.76% - 7.92%, with an average of 7.83%. All figures presented to 2 d.p.
The DGM range represents the 20-80th percentile range over the last 24 months which is 7.35%- 8.37% with an average of 7.87%. All figures presented to 2 d.p.
We derive CPIH-real figures using the Fisher equation and a CPIH assumption of 2%.
The investment manager TMR range is constructed from the mean of all observations and the mean of observations included in Ofgem's sample at RIIO-2. The mid-point of these values makes up the point estimate.

- Oxera concluded: Our analysis of the historical evidence and current market conditions points towards a TMR range of 7.00–7.50% (CPIH-real) for RIIO-3. The historical evidence reflects the through-the-cycle estimate, while the current market conditions suggest that, at this point in time, investors would require higher market returns than the through-the-cycle TMR of 7.00%, and we cannot exclude the possibility that values higher than 7.50% would be required." [128] Oxera noted that the UKRN guidance specifies that regulators should not consider the TMR to be fixed, and cited the UKRN's position on this matter: 'it is important to recognise that depending on the macroeconomic environment, this largely 'through-the-cycle' approach could either overstate or understate returns required by investors in a specific price determination'.[129]

[127] Appendix FQ12A Frontier report : Updated cost of equity cross check evidence for FEN, section 10.2.3
[128] Appendix FQ6A - Oxera report : RIIO-GD&GT3 cost of equity and debt premium cross-check, page 5
[129] Ibid, page 4

Finally, we include further cross check evidence provided by Kairos:[130]

- Gas vs electricity: Kairos find evidence that supports a material differential between market pricing of systematic risk of European gas and electricity networks under the CAPM, as evidenced by a differential in the betas for portfolios of gas and electricity companies that persists on a country-specific basis. The value-weighted effect is c.0.03 (equal-weighted c.0.02) on the asset beta which translates to c.37bp (equal-weighted c.24bp) on the CAPM-CoE.

- MFM cross-check on the CAPM: Given the known flaws with the CAPM, MFMs provide one important cross check when moving from the CAPM-estimated cost of equity to the allowed return on equity (Allowed-RoE). For the UK comparators, the difference between a CAPM-CoE and MFM-CoE is 30bp on average (using Ofgem's approach of a 10-year historical estimation period of data with no adjustments for exceptional events).

In conclusion, there is compelling evidence in the consultant's reports that, both individually and taken together, clearly signal that the level of equity return required by investors is much higher than Ofgem's 6.04%. We ask Ofgem to consider this evidence carefully.

FQ13. Do you agree with our treatment of risks to the ET and Gas sectors as non-systematic?

We do not agree to such treatment regarding the GD sector. Before we explain why, we set out below our understanding of Ofgem's position to set the overall context as clearly as possible:

a. Ofgem expects higher levels of risk exposure to be accompanied by an offset in a higher cost of equity. Risks will be viewed on a net basis, and most appropriately addressed at source. [131]
b. In paragraphs 3.83 and 3.118, Ofgem is looking to address potential additional risks in RIIO-3 in two ways: (i) increasing beta by inclusion of European comparators, commented on further in c. below and (ii) "In addition, we are acting to mitigate the perception of asset stranding risks in the GD sector by accelerating depreciation - effectively increasing the speed at which investors recover previously invested funds and reducing future upward pressure on average bills".
c. Systematic risk: Ofgem stated in the context of its beta considerations: "However, when taking into account the changes in risk for RIIO-3 relative to RIIO-2, we consider that including EU network companies better addresses these changes." [132] . Ofgem considers that only systematic risks are relevant.[133] Ofgem sheds some light on what is means by "changes in risk": "This should mean that the net-zero driven risks that energy networks face, to the extent that they are systematic, should be better captured in our cost of equity assessment process."[134] Whilst Ofgem recognises that using European comparators increases beta compared to UK comparators, [135] we presume its core motivation in expanding its comparator set to include European companies is, as it said, to reflect net zero carbon risks.
d. Asset stranding risk: In paragraph 3.64 Ofgem "continues to believe that asset stranding risk is non-systematic risk and diversifiable by investors." Ofgem prefers RAV depreciation acceleration to mitigate asset stranding risk to "pre-emptive increases to allowed returns on equity."[136] In addition, Ofgem

[130] Appendix FQ12B Kairos report : Cost of equity for RIIO-3 : (i) Gas.v.Electricity and (ii) MFM cross check
[131] RIIO-3 Draft Determinations – Finance Annex, paragraphs 3.80 and 3.82
[132] Ibid, paragraphs 3.58 and 3.118
[133] Ibid, paragraphs 3.62, 3.64, and 3.81
[134] Ibid, paragraph 3.136
[135] Ibid, paragraph 3.118
[136] Ibid, paragraph 3.114

speculates on asset repurposing that companies "…will likely see long term value in these assets beyond 2050" as a potential mitigant to asset stranding risk.[137]

e. In conclusion:

> 1. Ofgem prefers to mitigate asset stranding risk with (i) a NPV neutral mechanism by accelerating RAV depreciation and no further adjustment to the Ke rate, through, for example, a higher beta, and (ii) reliance on its speculative view that value "will likely" be realised post 2050 from asset repurposing;
>
> 2. Ofgem recognises potential for increased systematic risk from RIIO-GD2 to RIIO-GD3 relating to higher net zero carbon risks and expands its set of comparable companies from one which has no gas companies to one which, although dominated by non-gas companies, includes three European gas companies; And
>
> 3. Ofgem sees a less certain future for gas than electricity but does not adjust betas to reflect that view.[138]

Our position is:

a. In our Business Plan submission, we agreed with Ofgem's SSMD position that the mere presence of asymmetric risks is not a reason to increase returns.[139] We agree that overall risk should be assessed. In the SSMD, Ofgem said it would consider the balance of risk and return in the Draft Determination and Final Determination.[140]

b. We set out a list of non-systematic risks for Ofgem's consideration and noted that past regulatory practice by Ofgem took explicit account of non-systematic risks in setting the allowed cost of equity. We noted agreement with Oxera's view that RAV depreciation acceleration does not fully mitigate asset stranding risk, given uncertainty on pathways and timing to Net Zero Carbon and tariff pressures on consumers.[141] We also agreed with Oxera's view that asset stranding risk is a negative asymmetric risk (revenue shortfall risk) with systematic components.

c. We disagree with Ofgem's view in its SSMD that changes to beta comparators and RAV depreciation acceleration would be adequate to mitigate increased overall risk, comprising symmetric and asymmetric risk. We disagree with Ofgem's view that asset stranding risk for GD3 can be robustly mitigated by a speculative view on asset repurposing beyond 2050.

d. It is not persuasive that Ofgem's data set of companies largely dominated by UK listed water companies, National Grid and some European electricity companies are a fair reflection of gas sector specific risks.

e. Ofgem merely noted Oxera's view that it is relevant to consider if asset stranding could have a systematic element. [142] This is not a fair or accurate depiction of Oxera's position. [143] Ofgem did not provide any evidenced based rebuttal to Oxera's view that the systematic component is supported by

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[137] Ibid, paragraph 3.115
[138] Ibid, paragraph 1.6
[139] WWU Business Plan, Finance Annex, sections 5.3 and 5.4
[140] RIIO-3 Sector Specific Methodology Decision – Finance Annex, paragraph 3.304
[141] WWU Business Plan, Finance Annex, sections 5.6-5.12
[142] RIIO-3 Draft Determinations – Finance Annex, paragraph 3.117
[143] Oxera report : Cost of Equity for RIIO-GD3: Prepared for GB Gas Distribution Networks 29 November 2024, section 5 ; "Are risks adequately accounted for by the regulatory package ?"

capital market evidence in debt premia (and we note Ofgem has acknowledged the need for a gas network premium in the cost of debt allowance) and betas between gas and electricity networks.

f. Ofgem continues "…to believe that asset stranding risk is non-systematic and therefore diversifiable by investors". [144] This belief does not seem justified by market evidence nor is it based on any attempt to rebut Oxera's arguments. Therefore, we continue to disagree with Ofgem's view that extending its comparable dataset to include European betas is adequate to address increased net zero risks from RIIO-2 to RIIO-3.

g. Evidence from Kairos shows higher asset betas for European gas versus European electricity companies. [145]

h. We ask Ofgem to (i) reconsider section 5 of Oxera's report on cost of equity for the Gas Networks and submitted as part of our Business Plan, (ii) review section 4.1 of Oxera's updated cost of equity report for FEN and (iii) review the Kairos evidence on European gas versus electricity asset betas.

i. The evidence and rationale for a higher asset beta range of 0.40 to 0.44 as presented in the Oxera report is compelling. We noted this point in our BP submission and adopted a mid-point of that range, i.e. 0.42, which remains consistent with Oxera's report included in our response.[146]

FQ14. Do you agree with our proposed dividend allowance policies for the notional gas and electricity companies?

We disagree.

a. In the context of investability testing, it is difficult to discern any "policy" proposed by Ofgem for the GDN sector, given that it suggests there are "options still under consideration", and without explaining what those options are.

b. The absence of a clear investor supportive position came as an unwelcome surprise given the recognition by Ofgem to "income preferences" of equity investors in its SSMD in the context of investability. Ofgem gave an undertaking in the SSMD published over a year ago to continue to work with stakeholders on an appropriate dividend yield assumption.[147]

c. In paragraph 3.110, Ofgem persists with a "working assumption" of 3% used for RIIO-2 because "…with options still under consideration, it would be premature to change the allowed notional company dividend yield at this stage..". No explanation was given by Ofgem on what it meant by "options still under consideration" with regard to the GDN sector.

d. In the same paragraph, Ofgem speculates that there may be downward pressure on gearing during GD3 in this sector, without explaining why. The answer is partially evident in Ofgem's Finance Annex wherein it assumes a 3% dividend yield, the rest of the answer may be found in the Business Plan

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[144] RIIO-3 Draft Determinations – Finance Annex, paragraph 3.64
[145] Appendix FQ12B Kairos report : Cost of Equity For RIIO-3: Gas Vs Electricity and MFM Cross-Check
[146] WWU Business Plan, Finance Annex, section 3.2e
[147] RIIO-3 Sector Specific Methodology Decision – Finance Annex, paragraph 3.282 : "We are open-minded to the requirements of investors, and we do see the potential benefit in considering issues such as the dividend preferences of investors in the utilities sectors (who often have underlying income requirements)."

Financial Model wherein a "special" dividend trigger applies where gearing falls below 55% to bring it back up to 60%. Ofgem states these (amongst other) assumptions are "consistent with the behaviour of an efficient operator" but does not explain why or how this is justified. [148]

e. An efficient operator would not hoard cash and consequently earn less than the Ke rate on that cash, absent other investment opportunities and in a context of no real growth in RAV. It would instead distribute that cash, subject to any credit constraints from regulatory, lender or rating agency positions. In the context of no material real RAV growth for GD3, equity investors would expect a return on equity approximate to the Ke rate and a return of equity to retain gearing at 60% intra year and at year end.

f. In the context of cash management following equity issuance, Ofgem stated "We expect network companies to manage their treasury facilities efficiently to avoid such excess cash holdings over extended periods". [149] The same expectation should apply for the GDN sector in a context of zero real RAV growth and accelerated RAV depreciation. Therefore, Ofgem's distribution assumptions are inconsistent with its expectation of efficient treasury management.

g. In persisting with its 3% "working assumption", Ofgem does not cite any empirical and theoretical support for it. For example, there is no indication that Ofgem turned its attention to market evidence on dividend yields of European gas comparators. It is apparent that it read the Oxera report for the GDN sector,[150] but did not offer any views on whether it agreed with the evidence and rationale in that report. Ofgem has not explained, what, if any, regard it gave to this evidence or whether it may give any regard to this evidence in its Final Determination.

h. We ask Ofgem to consider the updated report from Oxera.[151]

In conclusion, Ofgem's assumptions on distributions for both return on equity and return of equity would be contrary to investor expectations and therefore consumer interests. We encourage Ofgem to engage with GDNs on this important matter before the Final Determination to arrive at a clear set of assumptions for both return on equity and return of equity that would be investor supportive.

FQ15. Do you agree with our proposal not to apply the flat WACC approach?

We have no comments on this proposal.

[148] RIIO-3 Draft Determinations – Finance Annex, paragraphs 5.48 and 5.49
[149] Ibid, paragraph 3.90
[150] Ibid, paragraph 3.108
[151] Appendix FQ14A Oxera report : Dividends in RIIO-GD/GT3

FQ16. Do you agree that our proposed package for gas and electricity companies is investable?

We do not agree. The latest updated evidence in consultant reports is compelling and robust in demonstrating that Ofgem's 6.04% equity return allowance is too low. Further, Ofgem does not present evidence to support its assumptions for cash payments for return on and return of equity. Ofgem's approach to cost of debt remains unacceptable to WWU. Taken together, these positions undermine WWU's financeability, as we explained in our Business Plan submission.[152]

Therefore, Ofgem's proposed package is not investable to WWU.

FQ17. Do you agree with our working assumption that there is risk symmetry within the aggregate balance of the whole price control?

We do not agree. We are concerned that the allowed return on RAV is significantly below the level that would enable WWU to finance its functions, including to attract and retain equity investment. Following business plan submissions, we were expecting Ofgem to present its evidence base to support its provisional position at this relatively late stage of the process. In particular, in the context of finance, we do not agree that gas sector risks are adequately reflected in Ofgem's asset beta of 0.375.

WWU also faces a high risk that its efficient Totex will exceed the allowance provided by Ofgem in RIIO-GD3, with negligible prospect of spending within the allowance. The factors that contribute to this asymmetric position are set out elsewhere in our response. The consequence is that equity investors are likely to experience returns lower than the base equity return allowance, compounded by Ofgem's approach to setting an allowance for cost of debt.

Therefore, we consider that Ofgem has left itself with a lot of work to do by Final Determination to compellingly present a fair and balanced package on risk and return.

[152] WWU Business Plan, Finance Annex, section 7.7

Debt Financeability

FQ18. Do you agree with our approach to assessing financeability?

We do not agree. This is a matter relevant to the Judicial Review as noted at the outset to this section.

Ofgem states in paragraph 5.34: "Given the scale, value, and strategic importance of the RIIO-GD3 investment for consumers, we consider a cautious approach to be justified." We agree that caution is required – and advocated such caution in our Business Plan submission given the uncertainties facing the GDN sector. [153]

Within the flawed context of Ofgem's financeability assessment of its notional company, and without prejudice to our legal position, Ofgem should approach debt financeability assessment both for GD3 and over the long run to 2050, with the following adjustments, combined with its scenarios:

1. A dividend yield assumption set at or close to the Ke rate, before any account is taken of return of equity from accelerated RAV depreciation revenues[154]
2. Assume a return of equity of 40% of RAV depreciation accelerated revenues in the year in which they are received
3. Remove the deadband between 60% and 55% gearing for triggering a special dividend
4. Ensure correct capitalisation rates are applied
5. Reflect updated rating agency positions on minimum thresholds

With regard to equity financeability, we refer Ofgem to our response to FQ 16.

FQ19. Do you agree with our proposal to adjust bucket 2 capitalisation rates from natural rates to 85% for all ET licensees to support financeability? Are there alternative measures that stakeholders consider more appropriate?

The question relating to ET is not applicable to the GD sector. The bucket 2 capitalisation rate for the GD sector was not defined by Ofgem in the Draft Determination and it will need to calibrate this for the Final Determination.

For bucket 2, consistent with our Business Plan submission, reopeners should have a bespoke capitalisation rate reflecting the approved spend mix under each reopener.

FQ20. Do stakeholders have views or evidence on long-term financeability considerations, including the appropriateness of the proposed asset lives?

Please refer to our response to FQ18. We ask Ofgem to carefully consider headroom on key metrics in the light of updated rating agency minimum thresholds. Any lack of headroom, bearing in mind Ofgem's appropriate focus on the need for prudence, would further adds to the overall evidence base that the proposed allowed return on equity of 6.04% is too low.

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[153] Ibid, section 5

[154] Ibid, section 7.2.b)i. WWU Business Plan had a 5% dividend yield for financeability assessment, supported by market evidence and the evidence contained with the Oxera GDN distribution report

Financial resilience

FQ21. Do you agree with our proposal to implement the Financial Resilience measures as laid out in our SSMD and the proposed methodologies set out above?

We do not agree with all proposals and provided our views to each of the proposals in our response to the SSMC. We repeated our positions in our Business Plan submission and these remain.[155]

In relation to Ofgem's proposal to remove the qualifying language of "reasonable endeavours" from the licence requirement to maintain investment grade, in its SSMD, Ofgem refers to "appropriate" levels of protection for consumers and "proportionate" measures"[156]. We agree these points are relevant. However, Ofgem's SSMD response relies on its discretion in the case of a licence breach,[157] and cites difficulty in understanding what is meant by "reasonable endeavours". [158]

Ofgem did not provide a full response to our arguments. We set out below an extract from our SSMC response and ask that Ofgem respond to the arguments within.

> Removal of the qualifying language would impose an absolute unconditional requirement on licensees to maintain investment grade in all circumstances and at all times. It would be tantamount to imposing an indemnity on shareholders that, irrespective of circumstances (including those entirely outside their control), they must fund whatever is required to maintain investment grade. By definition, removing the reasonable endeavours qualification entails changing the obligation to one in which shareholders must take steps even where it would be entirely unreasonable for them to have to do so. It would therefore be a disproportionate and erroneous step by Ofgem. We doubt that it can be justified at all, but certainly no adequate justification has been provided in the SSMC.
>
> Moreover, the change would involve an inappropriate and invalid delegation by Ofgem of its authority. On the basis of the proposed change, what was required for compliance with the licence condition would in future be wholly dictated by the requirements of the credit rating agencies (in the light of the circumstances then prevailing) with no room for any element of discretion to be exercised by Ofgem. This outsourcing of all responsibility from a public authority to private bodies cannot be justified and is fundamentally inconsistent with basic regulatory principles of accountability. In this area, Ofgem's general approach seems to be to seek to minimise its own obligations under its statutory finance duty, and to transfer all responsibilities to investors and third party agencies. WWU does not consider that this is an appropriately balanced or proportionate approach, or indeed consistent with the intention of the statutory regime.

Finally, in the Draft Determination, Ofgem notes that two GDNs did not bring forward any new evidence or rationale.[159] WWU is one of those GDNs, and we did not bring forward new evidence or rationale because our response to the SSMC provided ample evidence and rationale.

[155] Ibid, section 9.3
[156] RIIO-3 Sector Specific Methodology Decision – Finance Annex, paragraphs 6.18 and 6.19
[157] Ibid, paragraph 6.45
[158] Ibid, paragraph 6.47
[159] RIIO-3 Draft Determinations – Finance Annex, paragraph 6.13

Corporation tax

The questions raised by Ofgem below do not cover its response to WWU's concern on the methodology to determine the "positive benefits" test (i.e. excess of actual interest including derivatives over the revenue allowance for interest, which excludes all derivatives apart from cross currency swaps) on Tax Clawback.[160] As to that response by Ofgem, we make the following points:

1. Ofgem's original argument, raised in its SSMD, was to contend that credit spreads would be higher for increases to gearing above 60%. We responded to that argument in our Business Plan submission.[161] As that argument has no material substance for modest increases to gearing from below 60% to above 60%, and Ofgem has not repeated it in the Draft Determination, we assume it has abandoned it.

2. Ofgem's Draft Determination states in paragraph 7.34 that neither of its two policy objectives (i.e. to deter excess gearing and to ensure that licensees do not earn revenues for tax greater than the tax they pay) take precedence over the other. However, under TCB methodology, the positive benefits (i.e. "excess interest") test does not apply if the gearing test does not apply. The gearing test is therefore methodologically paramount and takes precedence. Therefore, Ofgem's statement is factually inaccurate, being contrary to existing methodology, codified in the licence.

3. For WWU - as Ofgem is aware - a slight movement in gearing from below the notional limit of 60%, say 59.0%, to above the limit, to say 61.0% results in no material change to actual tax, does not threaten financial resilience, yet results in significant loss of revenue to WWU. This is a significant design flaw in Ofgem's methodology for determination of excess interest. There would be no consumer detriment in fixing it. Further, there would no detriment to financial resilience (and thus consumer interests) on the scale that Ofgem contends and exaggerates, e.g. "in extreme cases", "heightened financial risk" etc. Those scenarios would be significantly mitigated, if not precluded, by Ofgem's package of proposed and enhanced financial resilience measures (in addition to WWU's capital structure constraints on gearing).

4. Taking Ofgem's arguments [162] in the round, it is effectively saying that it is fair and proportionate that a significant revenue loss should arise from slight increases to gearing from below the notional level of 60% to above that level in circumstances where there is excess interest not caused by that movement in gearing. This is neither fair nor proportionate.

5. WWU has already proposed a simple and effective solution to reasonably reflect excess interest proportionate to excess gearing. Ofgem rejects that proposal on the single ground that "any form of pro rating the restriction may still incentivise licensees to over-gear".[163] It is not apparent from that rationale why an incentive exists to over-gear when revenue loss would still apply. Further, it does not grapple with the unfair and disproportionate potential consequences facing WWU, and it is not apparent how Ofgem would have proper regard to its financeability duty to WWU where there is no consumer detriment or threat to financial resilience.

6. We can alter our proposal to one that would apply a pro rata as previously suggested, but only in circumstances where the movement from gearing from each 31 March year end to the next 31

[160] Ibid, paragraphs 7.31-7.40
[161] WWU Business Plan, Finance Annex, section 9.2 (second bullet)
[162] RIIO-3 Draft Determinations – Finance Annex, paragraphs 7.33-7.39
[163] Ibid, paragraph 7.37

March year end is from actual gearing below 60% to actual gearing above but not exceeding 65% to allow for temporary and moderate increases to gearing. We ask Ofgem to reconsider its position for the Final Determinations. WWU remains willing to engage in discussions to achieve an acceptable outcome.

FQ22. Do you agree with the proposed position that by including robust protections within the Price Control Financial Handbook, a tax forecasting penalty is not required?

We do not agree with the proposed additional tax review trigger event included within the GD3 PCFH at paragraph 6.42.(b) issued as part of the RIIO-3 initial licence consultation on 30 July 2025 and nor do we agree with any potential tax forecasting penalty.

Ofgem's SSMD position, at paragraph 7.17 was unambiguous and clear that "The scope and application of the tax review within RIIO-3 will be unchanged from RIIO-2". This accepted what WWU, and other licensees, requested in their SSMC responses that Ofgem's SSMD should explicitly mention that "Ofgem would only conduct a tax review in cases of significant, unexplained differences between a licensee's calculated tax Allowance and actual corporate tax liability". Substantial additional protections introduced in RIIO-2 by way of the tax review and board assured tax reconciliation resulted in significant incremental reporting burdens for licenses and introduced additional compliance risk. Despite numerous requests for feedback from Ofgem on WWU's reconciliation and commentary submissions, disappointingly none has been provided to date. Ofgem's proposal is to further extend the scope of the tax review without first having engaged with licensees on whether the existing measures are disproportionate.

The additional tax review trigger event within the PCFH and potential tax forecasting penalty have been introduced by Ofgem for the first time at Draft Determinations to address a perceived risk arising from its SSMD decision to allow adjustments to tax pool allocations within the RIIO-3 price control period. This is confirmed in paragraph 7.75 "As a result of the decision made at our SSMD to allow licensees to retrospectively amend tax variable values, including tax pool allocation variable values, within the RIIO-3 price control, Ofgem considered that the risk of Allowed Revenue being manipulated through deliberate / negligent mis-forecasting of tax values to be increased".

The SSMD decision to allow adjustments to tax pool allocations within the RIIO-3 price control period, which was based on the SSMC response from just one licensee and not consulted upon more widely – (WWU holds a different view), was the only SSMD decision in respect of retrospectively amending tax variable values and has directly resulted in Ofgem extending the scope of the tax review (via paragraph 6.42.b) of the PCFH) in its Draft Determinations contrary to the SSMD position. The additional tax review trigger event at paragraph 6.42.b) of the PCFH should therefore be removed. Ofgem's concerns in respect of tax pool allocations being adjusted retrospectively can be proportionately addressed by way of clear instructions and guidance on how to update these variable values being included in the PCFM Guidance.

The notion of "behaviour of a notional efficient company" Ofgem has introduced in the PCFH is undefined. The reason for its introduction appears to be to prevent manipulation of PCFM variable values. However, Ofgem has provided no evidence that this happens, or can happen, in practice or that there is an potential consumer detriment which goes against its stated objective of always acting of the basis of the evidence in paragraph 3.79. Ofgem should provide licensees with clear and unambiguous guidance for updating variable values to address this perceived risk rather than introducing uncertainty and ambiguity into price control documentation.

FQ23. Do you agree definitions for ANDt and TDNIt should be updated to reflect the principles outlined in paragraph 7.41?

Without prejudice to our legal position, we have two points:

1) With regard to Ofgem's proposal to include Fair Market Value ("FMV") movements which are brought into charge for UK tax purposes and recognised in statutory financial statements, this would lead to double counting of derivative net expenses included in the RFPR measure of actual interest (e.g. such as accrued accretion expense) which measure in turn is used for TCB purposes, and FMV movements reported under FRS 102. Such movements under FRS 102 include movements in accruals of expense and income. Therefore, to avoid this double count, Ofgem must replace the current inclusion of accrued inflation accretion and other pay and receipt legs on swaps with the reported FMV movement under FRS 102. [164]

2) Ofgem's DD position proposes amending the definition of Tax-Deductible Net Interest (TDNI) to include interest which has been disallowed due to the application of Corporate Interest Restriction (CIR) in licensees actual tax returns. This proposal is contrary to the fundamental principle of TDNI because it is seeking to bring CIR amounts that are not tax deductible within tax deductible interest for TCB purposes and goes against Ofgem's principle in paragraph 7.41 that "definitions should seek to align TDNI with the tax deductions arising in the licensee's actual tax return and statutory accounts as closely as practicable". It is not impracticable to exclude CIR amounts from TDNI, and these proposed changes go against delivering a financial framework that is stable and predictable by making fundamental changes in respect of tax legislation enacted over eight years ago. Ofgem's primary concerns per paragraph 7.67 "that adjusting TDNI for CIR restrictions creates potential for licensees to utilise the group allocation rules to potentially circumvent or mitigate the application of the Tax Clawback" can be simply and adequately addressed though unambiguous RFPR RIG's instructions as opposed to adopting asymmetric policy positions to address perceived risk that we are not aware has been subject to a full impact assessment.

[164] Ofgem replied to our concern about double counting (DDQ WWU029) on 21 August 2025. We will engage further with Ofgem to clarify its response, which did not confirm that MTM movements would replace the current inclusion of accruals for accretion expense and other pay and receipt legs.

Regulatory Depreciation

FQ24. What are your views on our proposal to accelerate depreciation for new assets only in GD and is there any further evidence you would like us to consider before we reach a final decision?

In principle, we support this proposal.

However, and consistent with our Business Plan submission, we do not agree that this proposal is adequate to address asset stranding risk in its entirety. Please refer to our comments on this matter in our response to FQ13.

FQ25. Do you agree with our proposal to maintain the existing depreciation policy for gas transmission assets?

Not applicable to WWU.

FQ26. Do you agree with our proposal to maintain the existing depreciation policy for electricity transmission assets?

Not applicable to WWU.

Return Adjustment Mechanisms

FQ27. Do you agree with our proposals for the RAM thresholds and adjustment rates?

These proposals seem reasonable to protect investors and consumers at an operational RORE level, subject to the overall package being reasonably balanced on risk and return. However, RAMs should be extended to cover the cost of debt and tax, as this basis would be more relevant to equity and debt investors.

FQ28. Do you agree with our proposal to include programmes such as ASTI within RAMs?

Not applicable to WWU.

Indexation of Regulatory Asset Value

FQ29. Do you agree with our proposals for RAV Indexation?

Ofgem proposes a close out mechanism for costs associated with transition from RPI to CPIH. [165] We note Ofgem seemed to focus only on RPI linked debt, not RPI swaps. We ask Ofgem to include RPI swaps.

Other finance issues

FQ30. Is there any additional evidence we should consider to improve our setting of regulatory capitalisation rates?

Our position remains consistent with Ofgem's principles - that capitalisation rates should reflect natural capitalisation rates on a fixed ex ante basis for bucket 1.

For bucket 2, please refer to our response to FQ19.

FQ31. Do you agree with the approach to maintain the RIIO-2 treatment for disposal of assets?

We agree.

FQ32. Do you agree with the proposal for the ex ante base revenue definition we will use to calculate the re-opener materiality thresholds?

We agree.

FQ33. Do you agree with the proposal for how we will set ODI caps and collars at final determinations that are fixed for the duration of RIIO-3?

We have no objections to the proposal for setting ODI caps and floors. However, the question above does not address the definition of ex-ante revenue for the purposes of calculating BPI. On this, the exclusion of Ongoing Efficiency, which GDNs have proposed in their BPs, is unintuitive. The calculation should include Ongoing Efficiency.

FQ34. Do you agree with the proposal to move to using nominal WACC as the single uniform TVOM?

We agree in principle. However, allowed WACC is set generally using long term rates, and the short to medium term interest rate market may be significantly different to long term rates. This is evident in current interest rate and gilt curves. Given that most revenue true ups are affected over 2 years, we ask Ofgem to consider applying a TVOM less a fixed percentage. This is a simple measure to align more with the short-term market cost of funding revenue true-ups.

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[165] RIIO-3 Draft Determinations – Finance Annex, paragraphs 2.45

FQ35. Do you agree with the proposed base revenue forecasting penalty mechanism?

We do not agree. Ofgem's stated rationale for introducing the Base Revenue Forecasting Penalty (BRFP) is, per paragraph 11.97 of the Draft Determinations, to better incentivise accurate forecasting and therefore accurate consumer bills because licensees have an annual opportunity to update variable value forecasts for the remainder of the price control. GDNs have been able to forecast variable values in this way throughout RIIO-2 and Ofgem has not provided evidence of mis-forecasting of base revenues by GDNs in RIIO-2 or demonstrated that there has been any consumer detriment sufficient to justify the introduction of the BRFP. Aligning with the ED2 price control is not a strong enough reason to introduce such measures for GDNs particularly given the significant differences in revenue drivers, proportion of non-forecastable pass-through costs, and re-opener processes between sectors.

Updates of actual and forecast variable values by licensees are governed by Ofgem's regulatory framework including Standard and Special Licence Conditions, Price Control Financial Instruments and Associated Documents including Regulatory Instructions and Guidance (RIGs), PCFM Guidance and the Re-opener Guidance and Application Requirements Document. In addition, there are Data Assurance Guidance (DAG) requirements for the submission of actual and forecast data as well as Agreed Upon Procedures (AUPs) that address variable values. Given this comprehensive framework and governance environment within which licensees update variable values, and in the absence of any evidence of mis-forecasting and consumer detriment, Ofgem's proposal to introduce a BRFP should be withdrawn as it introduces a further asymmetric downside risk to the price control package for a concern that Ofgem can adequately address through existing safeguarding measures.

In addition, as currently proposed, the BRFP is also discriminatory for two main reasons:

1) Because of differing capitalisation rates between licensees – all other things being equal the exact same forecasting difference may lead to a BRFP threshold breach for one licensee and not for another solely as a result of the ex-ante capitalisation rates set by Ofgem at the outset of the price control.
2) Cumulative impact of various components of base revenue – because of the various components that make up the BRFP, all other things being equal a +10% forecasting difference in shrinkage which was not forecastable by either licensee, may lead to a BRFP threshold breach for one licensee that had perfectly forecast all other base revenue components, but not for another licensee who had understated fast money by -3%. In these circumstances, the BRFP is poorly targeted because it fails to penalise the behaviour it is targeting to incentivise.

For the above reasons, the proposed BRFP in its current form is not equitable between licensees.

For the avoidance of doubt, we do not disagree with the existing Recovered Revenue Forecasting Penalty (RRFP) because whilst Ofgem determines how Allowed Revenues are calculated it does not have responsibility for determining or control over how charges are set by GDNs to collect Allowed Revenues.

If the BRFP is retained by Ofgem, then there must be changes to the proposed form of the mechanism including:

1) Certain pass-through costs should be excluded as they are not forecastable
2) Uncertainty Mechanisms should be removed because they are included in forecasts at Ofgem's discretion
3) A robust waiver process established.

Each of these are discussed in turn below.

Exclusion of certain pass-through costs that are not forecastable

If the BRFP was applied in RIIO-2 in its proposed form, five of eight GDNs would have beached the penalty threshold at least once. Ofgem's assertion in paragraph 11.102 that, "We found that had such a base revenue forecasting penalty mechanism existed over RIIO-2, it would have been triggered in very few cases" is therefore misleading. Excluding non-forecastable pass-through costs, being Exit Capacity and Shrinkage, there would have been no breaches. We therefore propose that these costs, that are essential to the operation and maintenance of the gas network, are removed from the BRFP because they are largely outside the control of the GDNs and are subject to significant volatility due to external factors which makes them difficult to forecast and unfair for Ofgem to include in the proposed BRFP.

Exit capacity charges levied by the National Transmission System (NTS) for the right to offtake gas from the transmission network into the distribution network, whilst determined through a regulated pricing mechanism, are subject to change based on national demand forecasts, system constraints, and regulatory adjustments. Unexpected shifts in demand, such as those caused by extreme weather or industrial activity, can lead to significant volatility in exit capacity costs. In addition, and as previously outlined, MOD0903 is currently undergoing consultation and is anticipated to result in an increase of approximately 50% in NTS exit rates during the GD3 period further increasing the risk to licensees by including exit costs in the BRFP. By way of example, in RIIO-2, each GDN experienced forecasting differences in the same direction and of similar proportions every year, and in two of the four years analysed this would have amounted to -1.34% and -2.10% of the BRFP threshold. This volatility over time and the correlation between licenses demonstrates that forecasting differences in respect of exit capacity arise due to factors exogenous to the GDNs rather than due to mis-forecasting and it would therefore be inappropriate to include these costs in the BRFP.

Base Revenue Variance due to Exit Capacity	2021/22	2022/23	2023/24	2024/25
WWU	-0.72%	-1.72%	-1.93%	-0.35%
NGN	-0.60%	-1.35%	-2.23%	-0.33%
Scotland	-0.78%	-1.20%	-1.88%	-0.28%
Southern	-0.55%	-1.37%	-2.26%	-0.40%
East	-0.38%	-1.43%	-2.39%	-0.38%
London	-0.30%	-1.13%	-1.78%	-0.28%
North West	-0.37%	-1.24%	-2.25%	-0.36%
West Midlands	-0.35%	-1.29%	-2.08%	-0.34%
	-0.51%	-1.34%	-2.10%	-0.34%

Shrinkage refers to the gas lost during transportation through the network due to leakage, theft, or own use gas. The cost of shrinkage is influenced by the volume of gas lost and the wholesale gas price at the time (using day ahead prices as allowed under the license). Forecasting shrinkage costs is challenging due to the volatility of global gas markets. For example, geopolitical events such as the Russia-Ukraine war have led to significant spikes in wholesale gas prices, thereby increasing shrinkage costs unpredictably. Additionally, weather patterns and changes in demand can further complicate accurate forecasting. To provide context, on 23/02/2022 which was the day before the Russia/Ukraine war starting, NBP spot price was at 185p/therm. This war increased the spot price over the next few days and by 08/03/2022 the spot price was at 512p/therm, an increase of 327p or 177%. An increase of 327p over a year would lead to an increase in shrinkage costs for WWU of £34.3m. Geopolitical events cannot be forecast by licensees leaving GDNs subject to significant fluctuations in shrinkage costs. By way of example, in RIIO-2, each GDN experienced forecasting differences in the same direction and of similar proportions every year, and in two of the four years analysed this would have amounted to 2.94% and -3.30% of the BRFP threshold. This volatility over time and the correlation between licenses demonstrates that forecasting differences in

respect of shrinkage arise due to factors exogenous to the GDNs rather than due to misforecasting and it would therefore be inappropriate to include these costs in the BRFP

Base Revenue Variance due to Shrinkage	2021/22	2022/23	2023/24	2024/25
WWU	3.11%	-1.05%	-3.77%	-0.67%
NGN	2.66%	-0.01%	-3.74%	-0.55%
Scotland	2.52%	-0.46%	-2.71%	-0.28%
Southern	3.21%	-0.50%	-3.48%	-0.24%
East	3.07%	-3.88%	-3.17%	-0.83%
London	2.24%	-0.29%	-2.44%	-0.59%
North West	3.10%	-0.40%	-3.19%	-0.82%
West Midlands	3.65%	-0.47%	-3.92%	-0.99%
	2.94%	-0.88%	-3.30%	-0.62%

The above two pass-through costs contribute towards a significant proportion of the base revenue forecasting differences e.g., in 2021/22 shrinkage and exit capacity account for c62% of the total base revenue forecasting differences GDNs experienced.

Removal of Uncertainty Mechanisms

The BRFP should exclude certain variant allowances (i.e., re-openers and UMs). There is significant uncertainty in the gas distribution sector (including Government decision on Hydrogen in RIIO-3) and Ofgem's RIGs are rigid in respect of the inclusion of submitted but undetermined re-openers in PCFM variable values. Therefore, movements in these allowances once determined by Ofgem have scope for a material change in base revenue and could result in licensees incurring forecasting penalties unfairly despite their inclusion in base revenue being governed by Ofgem.

Waiver process

The BRFP waiver process must be robust and clearly set out in the special licence conditions. Currently, the process for waiving the penalty outlined in the draft of Special Condition 2.1 is discretionary, which not consistent with a financial framework that Ofgem considers to be stable and predictable.

FQ36. Do you agree that the thresholds have been set appropriately?

We agree with the RRFP threshold of 8% for RIIO-3 as per the Draft Determination BPFM issued by Ofgem. We consider this 2% increase in the threshold from the RIIO-2 equivalent of 6% is sufficient to adequately address the additional risks faced by GDNs in respect of collected revenues in RIIO-3 arising from increasing numbers of AQ amendments as shippers have greater flexibility to change their AQ value after GDNs have received the final demand snapshots that are used for price setting, greater uncertainty around demand for gas and customer numbers in RIIO-3 compared to RIIO-2 and Ofgem's switch from Sonia to nominal WACC for k adjustments from RIIO-3.

We disagree with the BRFP threshold of 8% based on the penalty mechanism in its proposed form. If Exit Capacity and Shrinkage together with Uncertainty Mechanisms are excluded from the BRFP then we consider the threshold of 8% for the BRFP appropriately set. If not, then because of the exogenous volatility encapsulated in these variable values, the threshold will need to be increased by at least 5% for the reasons outlined above in FQ35.

IAQ3. Do you agree with our approach to modelling the bill impacts of RIIO-3? Please provide any additional effects or alternative measures that you think would be appropriate

As Ofgem has not provided the calculations to support the bill impact modelling for RIIO-3 it is not possible to fully comment on whether we agree with the approach or whether additional effects or alternative measures are appropriate. However, from the limited information in the Draft Determinations Impact Assessment, some assumptions appear inappropriate/inconsistent in the current environment (e.g., GDN customer numbers and gas demand assumed unchanged but expansion for NESO and balancing costs), the exclusion of Repex is misleading and understates overall bill impact and from a presentational perspective the 2025/26 price base is unfamiliar to stakeholders and is inconsistent with licensee Business Plan bill data which was presented in constant 2023/24 prices in line with the real price base for the control period.

Given the importance of customer bill impacts across all stakeholder groups we would welcome greater transparency in respect of Ofgem's modelling at Final Determinations to ensure that the outputs can be verified and understood.

Summary

- While there are only a limited number of questions we are responding to in relation to the Gas Transmission Draft Determination, we would like to provide general feedback that the detailed and prescriptive nature of the GT funding schemes may stifle development of new / changing services and products from National Gas to the benefit of stakeholders during the GT3 price control period. Given the level of uncertainty and potential for change as we enter RIIO-GD3, we believe this unintended consequence should be considered and measures put in place to address it.

GTQ1. Do you agree with the proposed licence obligation for National Gas to collaborate with NESO and to seek stakeholder feedback in the area of gas strategic planning?

We agree with this obligation and think that networks required to support NESO should be funded through the RIIO-GD3 price controls. For NTS, this activity is primarily to support the Spatial System Energy Plan and Centralised Strategic Network Plan; for GDNs this is primarily to support Regional Energy Strategic Plans for all regions with which they interact, both for themselves and for any work they need to do to support Local Authorities to feed into RESPs. We note that GDN activities in this area are not recognised in an equivalent LO and we have responded to proposals on GDN funding mechanisms in a number of areas including GDQ4 and WWUQ7.

GTQ11. Do you agree with the proposed scope of the NTS Shrinkage Review?

We agree with the proposed scope, including the impacts of CV shrinkage as part of it, noting that the risk of CV shrinkage occurring increases with hydrogen blending. This will require enhanced coordination and management across the Transmission/Distribution boundary.

GTQ24. Do you agree with our proposed design of the Demand Forecasting ODI-F?

Networks are unlikely to benefit from this and would see more value in Gas Quality forecasting to support green gas injection on our networks. Knowing the CV and Wobbe of the gas coming into our network from the NTS helps us develop LDZ Gas Quality strategies including giving more accurate target CV data to biomethane producers, thereby minimising the amount of propane they have to add to avoid CV shrinkage. As NGT have not brought forward a Gas Quality forecasting project, the GDNs have initiated an innovation project to share gas quality information measures at our NTS offtakes.

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Acronym List

AER	Annual Environmental Report
AFV	Alternatively Fuelled Vehicles
AI	Artificial Intelligence
ALD	Advanced Leak Detection
BCF	Business Carbon Footprint
BEV	Battery Electric Vehicle
BNRO	Baseline Network Risk Outputs
BPDT	Business Plan Data Templates
BPG	Business Plan Guidance
BRFP	Base Revenue Forecasting Penalty
CAF-EP	Cyber Assessment Framework Enhanced Profile
CAPEX	Capital Expenditure
CAPM	Capital Asset Pricing Model
CAWG	Cost Assessment Working Group
CBA	Cost Benefit Analysis
CCC	Climate Change Committee
CDS	Complex Distribution Systems
CNI	Critical National Infrastructure
CNI NIS	Critical National Infrastructure Network and Information Systems
CPIH	Consumer Price Inflation with Housing
CP30	Clean Power 2030
CSNP	Centralised Strategic Network Plan
D&D	Data & Digitalisation
DD	Draft Determinations
DGM	Dividend Growth Model
DLCA	Domestic Load Connection Allowance
DEFRA	Department for Environment, Food & Rural Affairs
DNs	Distribution Networks
DPLA	Digital Platform for Leakage Analytics
DSI	Data Sharing Infrastructure
EAP	Environmental Action Plan
ECV	Emergency Control Valve
ED	Electricity Distribution
EDL	Excessive Deterioration Level
EI	Economic Insight
ENA	Energy Networks Association
EOE	East of England
EV	Electric Vehicle
FCEV	Fuel Cell Electric Vehicle
FD	Final Determinations
FEN	Future Energy Networks
FENIP	Future Energy Networks Innovation Process
FES	Future of Energy Scenarios
FPNES	Fuel Poor Network Extension Scheme
FTE	Full Time Equivalent
GIGG	Gas Innovation Governance Group
GDN	Gas Distribution Network
GO	Gross Output
GS(I&U)R	Gas Safety (Installation and Use) Regulations
GTh	Grant Thornton

GTW	Gross Train Weight – the maximum legally permitted total weight of a loaded vehicle and the loaded trailer it is towing
GVW	Gross Vehicle Weight – the maximum legally permitted weight of a loaded vehicle
HSE	Health and Safety Executive
HGV	Heavy Goods Vehicle
HILP	High Impact, Low Probability
HTBM	Hydrogen Transport Business Model
HRS	Hydrogen Refuelling Station
HYINt	Hydrogen Innovation funding
ICE	Internal Combustion Engine
IT&T	Information Technology & Telecommunications
IP	Intermediate Pressure
IPR	Intellectual Property Rights
ICM	Issue Corrected Model
KPI	Key Performance Indicator
LAEP	Local Area Energy Plans
LTS	Local Transmission System
MAR	Market to Asset Ratio
MPL	Minimum Performance Level
MOB	Multi Occupancy Buildings
NARM	Network Asset Risk Metric
NESO	National Energy System Operator
NGN	Northern Gas Network
NIC	Network Innovation Competition
NIS	Network Information Systems
NRMM	Non-Road Mobile Machinery
NZARD UIOLI	Net Zero and Re-opener Development Use-It-or-Lose-It allowance
NZASP	Net Zero and Small Projects
ODI	Output Delivery Incentives
OE	Ongoing Efficiency
OFTO	Offshore Transmission Owner
OPEX	Operational Expenditure
ONS	Office of National Statistics
PCD	Price Control Deliverable
PE	Polyethylene
PSUP	Physical Security Upgrade Programme
PEA	Proponent's Environmental Assessment
PN	Project Notifications
PRI	Pressure Reduction Installation
PSR	Priority Services Register
RACI	Responsible, Accountable, Consulted, Informed
RAV	Regulatory Asset Value
REPEX	Replacement Expenditure
RE	Random Effects
RESP	Regional Energy Strategic Planning
RFI	Request For Information
RPE	Real Price Effects
RRP	Regulatory Reporting Pack
RRFP	Recovered Revenue Forecasting Penalty
RTSM	Real Time Settlement Methodology

SBTi	Science Based Targets initiative
SFA	Stochastic Frontier Analysis
SIF	Strategic Innovation Fund
SME	Small to Medium Enterprise
SOC	State of Charge
SOC	Standard Occupational Classification
SSMD	Sector Specific Methodology Decision
SSEP	Strategic Spatial Energy Planning
T/D	Transmission and Distribution
TDNI	Tax-Deductible Net Interest
TIM	Totex Incentive Mechanism
TMR	Total Market Return
TOTEX	Total Expenditure
TRL	Technical Readiness Levels
UCR	Unit Cost of Risk
UIOLI	Use It or Lose It allowance
UKRN	United Kingdom Regulators Network
ULEV	Ultra Low Emission Vehicle
UM	Uncertainty Mechanism
VATFP	Value Added Total Factor Productivity
VOR	Vehicle Off Road
ZEV	Zero Emissions Vehicles