

21 February 2024

To: [RIIO3@ofgem.gov.uk](mailto:RIIO3@ofgem.gov.uk)

### **RIIO3 Sector Specific Methodology Consultation**

Dear Ofgem,

SGN's Independent Stakeholder Group (previously the Customer and Stakeholder Engagement Group) has been set up to provide challenge and support to SGN in the development of its GD3 Business Plan and to hold SGN to account for delivery of its GD2 Plan. The members of the Group are listed on a dedicated [web page](#). This response reflects the views of the ISG as a whole but may not necessarily represent the views of all individual ISG members on all points.

We are pleased that Ofgem has recognised the value that Independent Stakeholder Groups (ISGs) can play in the RIIO process and look forward to engaging with Ofgem in whatever way they would find most helpful as the process progresses. We note that Ofgem intends to include further detail of what it expects from ISGs in its Business Plan Guidance to be published in Q2. **Early visibility of any specific requirements of the ISGs would be helpful to us in planning our work** for the coming year.

Recognising that the Sector Specific Methodology is key to shaping the company plans we felt it would be helpful to share with Ofgem our reactions to elements where we have particular views, drawing on the conversations we have had with SGN over recent years and also the customer and stakeholder evidence that we have considered.

We attach responses to relevant questions but would highlight in particular:

- **The critical importance of safety.** Consistent feedback from consumers and stakeholders is that maintaining a safe network is the top priority. Our understanding is that almost all of SGN's planned investment is linked to safety and resilience and as such is independent of the scenario adopted and the level of overall gas demand. While gas still flows in the network, it has to be kept safe and SGN has a legal duty to do so (which goes beyond simply complying with the iron mains replacement programme).
- **The invaluable role played by the VCMA** and our view that the overall level of VCMA funding should not be set at this stage but that Ofgem should take account of evidence that GDNs put forward in their plans around the levels of need, partnership opportunities and customer attitudes. Our initial view is that it would be wrong to revert to the original VCMA funding level, having closed off the FPNES, in that it reduces the total support to vulnerable customers at a time when that support remains vital, with fuel poverty numbers rising and with Scotland facing particular challenges.
- **The need for more urgency on tackling methane leakage.** We welcome the acknowledgment of the need to address leakage and the recognition that, once an updated cost of carbon consistent with net zero is included, the iron mains replacement programme clearly represents value for money. However, we feel that Ofgem's proposals around methane reduction still lack urgency. Methane is a short-lived greenhouse gas and hence reducing methane emissions can contribute to reducing the stock of greenhouse gases in the atmosphere, mitigating short term temperature rises and avoiding climate tipping points. This was the rationale for the UK government supporting the Methane Pledge at the Glasgow COP. We would like to see Ofgem actively driving improvements in leak detection rather than simply relying on the current limited shrinkage model. Also, we strongly

welcomed the opportunity in GD2 for SGN to agree specific funding (and PCDs) to rollout particular initiatives that reduce methane leakage but which are not covered in the model. We would ask that this opportunity be available in GD3 as well and would support Ofgem's idea of a UIOLI fund.

- **We welcome Ofgem opening the debate around asset stranding risk and asset lives.** In Scotland the earlier timeframes for their net zero targets (and current draft legislation on heat in buildings) mean that these issues have added impetus. We discussed with stakeholders last year<sup>1</sup> that if Scottish government were to meet its 2030 target for electric heated homes / heat networks, that could see SGN lose half its customers in the region with remaining customers (likely to be the most vulnerable) seeing significant increases in this element of their bill. Even if these timescales are more drawn out, this could start to be a real issue in Scotland in GD3. While adjusting asset lives would seem an appropriate solution this would in turn have a significant impact on network charges in the near term and we encourage Ofgem to ensure that there is a wide debate with consumer groups and other stakeholders on the case for such a change. It should not be seen as simply a technical finance question given the scale of the bill impact.
- **Managing an uncertain future.** While Ofgem (and the GDNs) must plan and drive for a scenario in which net zero is met, Ofgem also has a duty to ensure security of supply and resilience across a much wider range of scenarios. In our view there remains significant uncertainty around the pace of heat decarbonisation and consumers' willingness to shift. We would encourage Ofgem to think about investment in the gas networks as an "insurance" (or as having a real option value) against a scenario in which the network may be needed, for whatever reason, for longer than currently envisaged. This points to a more nuanced approach than the simple payback rule that Ofgem applied in GD2.

We hope that Ofgem finds our input helpful and would encourage you to look at opportunities to bring the GDN ISG chairs together to share our insights and experience, as we did in RIIO2.

Your faithfully

Maxine Frerk

Chair SGN Independent Stakeholder Group

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<sup>1</sup> <https://sgn.co.uk/sites/default/files/media-entities/documents/2023-11/SGN-CSEG-thinkpiece-blog.pdf>

## Response to Specific GD Annex Questions

### Proposed RIIO-GD3 specific outputs and uncertainty mechanisms

GDQ1. What are your views on our proposal to remove the shrinkage ODI-R as a separate output?

Given the significance of shrinkage it is vital that the companies report on it transparently and consistently. Provided this happens as part of the AER (and not just through the RRP which only Ofgem sees) we are not concerned about it being treated as a specific ODI-R.

We did highlight in our annual report that to get a complete picture on leakage we needed to look across a number of different reports (annual report and accounts, stakeholder report on regulatory performance and the AER). We would encourage Ofgem to look at how the networks currently report on leakage to streamline this as far as possible.

GDQ2. What are your thoughts on the options we have set out for the shrinkage ODI-F and on the design of this incentive?

For the reasons set out below we would strongly support the introduction of a UIOLI allowance for funding low materiality projects or for rolling out innovation projects – in particular where the benefits of the projects are not captured in the shrinkage model. In our view this would give prominence to the need to take actions beyond those captured in the model (and links with the work around improved monitoring / analytics). In particular we are aware that quicker identification of leaks, reductions in 3<sup>rd</sup> party damage, faster repairs, initiatives to capture gas during repairs can all play a part. Improved monitoring could also help with understanding other areas such as leaks and venting from above ground equipment. The recent proposals put forward by National Gas to reduce leakage at transmission level show the benefits of a flexible approach.

We don't have a firm view on whether this should be combined with a penalty only ODI. We note that the current ODI-F is complex and it is hard to work out whether rewards reflect genuine strong performance. We would also note that by excluding repex from the incentive (for understandable reasons) there is no penalty for delays in the repex programme provided it is delivered by the end of the price control (despite this meaning cumulative emissions will be higher). We would support changes to address this.

GDQ3. If we provide baseline funding or a UIOLI allowance for shrinkage, can you provide examples of initiatives that could be funded, indicative cost, and why these activities would not go ahead without specific price control funding?

We argued strongly for the specific PCDs that SGN was awarded in GD2 to rollout innovative technology to reduce leakage (through actions that were not captured in the leakage model). We would very much like to see that opportunity continuing into GD3. With baseline funding in GD2 it was not always clear whether particular initiatives had been included in Ofgem's allowances or not and the PCDs in this area helped make that clear. A UIOLI allowance has a similar benefit but is more flexible than a PCD where the precise initiatives have not yet been fully scoped.

We recognise SGN would probably not undertake these activities without funding as they derive no direct benefit and the carbon savings (where there is at least a reputational incentive) are not reflected in the model and hence not included in reported metrics.

GDQ4. If the Digital Platform for Leakage Analytics is rolled out to all GDNs in RIIO-GD3, what would be the indicative cost and timescales for this?

We have not yet had a chance to explore the costs and timescales but have strongly supported the innovation projects that SGN and others have undertaken to improve leak detection, monitoring and measurement. With the global focus on methane reduction, we really should be raising our game in this area and we would like to see Ofgem setting a strong expectation in this area.

Our understanding is that there are a number of elements in the DPLA some of which could be delivered sooner than others. We would be keen that companies can move forward incrementally.

GDQ7. What are your views on our proposed approach for managing uncertain costs relating to regional energy strategic planning?

We agree that the RESPs are unlikely to be in place and to have much impact in GD3 and the proposed reopener therefore makes sense. However there remains an important question around how the GDNs should be dealing with local and regional considerations in their Business Plans and in the intervening period before RESPs are established, on which further Ofgem guidance would be helpful.

There is the potential for significant divergence in the development of the energy system in different parts of the country during the GD3 period. In particular, devolved and regional energy targets such as Scotland's 2030 heat ambitions (or the London Mayor's 2030 targets / Manchester's 2038 net zero target) are likely to have a material impact on energy networks during the late 2020s and early 2030s.

Local area energy planning is also likely to deliver bespoke pathways in local authority areas. For example, all Scottish local authorities were required to submit a Local Heat and Energy Efficiency Strategy (LHEES) and Delivery Plan by the end of 2023 which will inform the decarbonisation of heat within their area over the coming decade. In London, though not legally required, the GLA is undertaking significant LAEP studies across London and increasing numbers of London boroughs are doing similar things.

Scottish Government have also indicated a need to decarbonise around 1 million domestic properties by 2030 which would lead to circa 50% of Scottish on-gas-grid homes needing to transition to zero carbon heating by that date, along with a similar fraction of non-domestic heating. In addition, the Scottish Heat Network Act includes a statutory target of 6 TWh of heat to be delivered by heat networks by 2030, a quantity that may require a significant transfer of customers from gas networks to heat networks. Even if these targets are not delivered in full by 2030, they are still likely to have a material impact on gas network planning, operation and disconnections over GD3.

With these timescales in mind, we are concerned at your suggestion that the role of RESPs in relation to gas distribution will be limited in GD3 "as the FSO builds up its capability and while key uncertainties persist". We think that the coordination of sub-national energy system planning with planning for spending on energy networks must be a priority for the RIIO-3 period. This may mean that the need to adjust Business Plans during GD3 to reflect the recommendations of RESPs may be

more common than the consultation implies. Whilst this may still mean that reopeners are the best way to deal with that, Ofgem should give consideration to how this would best be managed if a high volume of adjustments is required.

Whilst we would like to see more urgency being put on developing RESPs, we accept that they will not be set up in time to inform the GD3 Business Plans. However, we still believe that Business Plans should reflect local and regional targets, policy and plans where they are well evidenced. In the absence of RESPs there will be a strong reliance on the Business Plan guidance to indicate the circumstances under which GDNs should reflect local and regional targets within their plans. We would like to see Ofgem provide such guidance at the earliest opportunity.

### **RIIO-GD2 outputs and UMs proposed for removal**

GDQ9. What are your views on our proposal to remove SGN's bespoke Biomethane improved access rollout PCD in RIIO-GD3?

We agree that this specific PCD is no longer needed but would hope that a similar mechanism could be used in GD3 if there are other SGN specific initiatives on biomethane (which have typically come out of the detailed engagement we had and other stakeholders had with them). We have been pressing SGN to engage further with biomethane producers to understand the barriers they face in connecting and injecting gas and this is now in hand. We would envisage that this may well lead to further initiatives in GD3.

As an ISG we have found the PCD mechanism helpful in making clear that these specific initiatives had been funded and had to be delivered. While we understand that Ofgem is looking to simplify the regime for RIIO3 and some of these PCDs were relatively small in terms of financial materiality, they were important from an environmental (and stakeholder) perspective.

An alternative would be some form of UIOLI allowance as being envisaged for leakage as part of the proposed NZARD allowance.

GDQ10. What are your views on our proposal to remove SGN's bespoke remote pressure management PCD in RIIO-GD3?

See answer to Q3 and Q9

GDQ11. What are your views on our proposal to remove SGN's bespoke Gas escape reduction PCD in RIIO-GD3?

See answer to Q3 and Q9

### **Proposed RIIO-GD3 specific outputs and uncertainty mechanisms**

GDQ14. What are your views on the benefits of repex that we have identified, how well the repex programme is currently working, and what evidence we should consider as part of the joint repex review?

We are very pleased that the wide benefits of the repex programme have now been recognised as we had been strong advocates of doing more in GD2.

As flagged in our annual report we are disappointed that SGN has struggled with resourcing and is behind target on its repex delivery. A clear line of sight for future work would help SGN in meeting that resource challenge.

As part of the joint repex review we hope that the HSE will look at any flexibility that could be provided around some of the residual elements of the IMRRP where small sections of mains have not been replaced to date because of particularly high costs or an expectation that they would be better dealt with as part of a subsequent phase. While overall the work shows the IMRRP has a very strong CBA, this will of course depend on the costs of the specific project.

GDQ22. What are your thoughts on our proposal to continue the emergency response time LO and whether the target should be set monthly, quarterly or annually?

We support the continuation of the emergency response time LO but are unpersuaded of the case for making this a monthly or quarterly target. We are aware that such a change would make the target significantly harder to achieve and as such would add to costs without demonstrably addressing a source of customer concern. What is important from our perspective is that the current targets are met.

#### **RIIO-GD2 outputs and uncertainty mechanisms proposed for removal**

#### **Proposed RIIO-GD3 specific outputs and uncertainty mechanisms**

GDQ28. What are your views on our proposed position on the role of GDNs in relation to vulnerability, and how can they support a just transition to net zero?

We agree with the position on the role of the GDNs as focussing on the areas of their competence, activity and consumer interaction. However, we are aware that one of the major actions envisaged for GD2 (fuel poor network extensions) is no longer an option, limiting the practical support that they can provide to households in fuel poverty. In reflecting also on the opportunities to support a just transition we would be keen to explore the scope for SGN to help fund energy efficiency measures recognising that this would deliver near term support to those in fuel poverty as well as making their properties more suitable for conversion to heat pumps in due course (and where otherwise those customers risk being left behind). We are aware that wider decisions on support for energy efficiency are for devolved governments but would be keen to explore if there are gaps in the current provisions that SGN could help fill and would like to see some additional flexibility in the guidance to allow this.

As SGN develops its Business Plan we will be keen to explore with them what more they can do in support of a just transition which might include retaining of workers / skills training; understanding health and energy crossovers – and other issues set out in Scotland’s Just Transition strategy.

GDQ29. What are your views on our proposal for GDNs to develop individual and joint-GDN vulnerability strategies?

We support this and in particular are keen to see more cross GDN (and wider) collaboration.

GDQ31. What are your views on our proposal to retain the use of the VCMA UIOLI allowance, on the alternative option to incentivise vulnerability through an ODI-F, and on which activities to support vulnerability could be funded through baseline allowances?

We strongly support the use of the VCMA which we have seen working extremely effectively through the partnerships SGN has established with front line agencies to target help where it really is most needed. The ED2 approach is as yet unproven and we are concerned that it could simply result in the networks chasing the metrics (which inevitably tell an incomplete picture).

GDQ32. At what level should VCMA funding be set to ensure its effectiveness and sustainability, and what percentage should be ringfenced for collaborative projects?

We are concerned about the proposal to revert to the previous level of VCMA funding. In testing the levels of support for vulnerable customers in GD2, we very much saw FPNES and VCMA as a package. Without the FPNES the overall level of support for vulnerable customers in GD3 would be very significantly reduced – while the energy and cost of living crisis looks set to continue for some time and with growing levels of accumulated debt. The latest Fuel Poverty figures published by DESNZ last week reinforce the need for continued support.

We have not yet seen the results of SGN's consumer and stakeholder research which will help calibrate what would be a suitable level for GD3. As such we would suggest that Ofgem does not finalise this until it has seen what the networks put forward in their plans.

GDQ33. How should VCMA funding be allocated to ensure maximum impact for consumers in vulnerable situations?

We are very aware that even between SGN's two areas the need for support is markedly higher in Scotland than in the south and, as flagged in our response on the redirection of FPNES funding to VCMA, do not consider that a simple per customer allocation is appropriate.

We would hope that a suitable metric can be developed which will lead to a fairer allocation of funding.

Failing that there would seem to be a case for an additional allowance for Scotland to reflect the different legal targets and other factors that make the situation there particularly challenging.

GDQ38. What are your views on our proposed options for the unplanned interruption ODI-F?

We support SGN in looking to have a separate metric for MOBs but do not have a view on whether that should be applied to all GDNs.

GDQ39. What are your views on the options we have set out for the Collaborative Streetworks ODI-F?

We are pleased that Ofgem are looking to continue this ODI-F based on feedback from the GLA. We understand the case for a simpler model.

## RIIO-GD2 outputs and uncertainty mechanisms proposed for removal

GDQ42. What are your views on our proposal to remove the Fuel Poor Network Extension Scheme in RIIO-GD3?

We agree with Ofgem's proposal to remove the FPNES given the lack of funding for in-home works and in line with the direction of travel for heat decarbonisation. However, we remain concerned that the FPNES was one of the most effective ways of materially helping vulnerable households with affordable heating and that this move reduces the overall support available for vulnerable households. As noted above we would therefore like to see a larger and more flexible VCMA for GD3.

GDQ43. What are your views on our proposal to remove the consumer vulnerability ODI-R in RIIO-GD3?

We are keen that SGN continue to report on their activity in this space but are unclear as to the benefits of labelling it an ODI-R.

## Overview document – future of gas questions

OVQ1. Do you agree with our proposal for how RIIO-3 should interact with the Hydrogen Transport Business Model?

We agree that there needs to be clarity around the route for funding for hydrogen networks and that in general hydrogen customers should pay for hydrogen infrastructure.

While this is likely to be mainly a problem for after GD3, we are concerned that the HTBM is at too early a stage of development to give clarity as to how the interactions would work if required during GD3. We are unclear at this point if there are any unintended consequences of the proposed approach. In particular we note that the government's minded to position states explicitly that its initial focus is on large-scale pipeline infrastructure and discusses the challenges of first of a kind technology. Our understanding is that the focus is on the industrial clusters, the hydrogen backbone and the high pressure parts of the distribution networks that would connect customers to them. The issues here are different to those presented by the low pressure tiers of the gas distribution networks serving domestic customers, if parts of them were to be repurposed to hydrogen for heat.

We also note that Ofgem talks about only approving expenditure to prepare networks for hydrogen if this is in the interests of natural gas consumers. We are unclear if Ofgem is making a deliberate distinction here between natural gas and hydrogen but would note that Ofgem's duties refer to gas conveyed in pipelines and hence cover future hydrogen consumers as well. This focus on the interests of natural gas customers may make sense for near term, larger scale investments (where as noted we agree with the principle that hydrogen consumers should pay) but does not obviously make sense at the domestic level where (if hydrogen were to be used for heating) these customers are essentially one and the same.

OVCQ3. Do you agree with the proposal that network costs relating to hydrogen blending at both distribution and transmission level should be included in RIIO-3 net zero related UMs? If so, which mechanism do you think is most appropriate for these costs and why?

Yes - we would agree that they should be included in the net zero UMs.



OVQ4. What are your views on the proposal of using the GD specific Heat Policy reopener, the RIIO-3 net zero related UMs, or a mixture of both to fund network costs incurred as a result of the government's 2026 decision on hydrogen for heating (where RIIO is deemed to be the most appropriate funding mechanism for these costs)?

We agree this makes sense.

OVQ5. What are your views on our proposal to not enable funding for further evidence relating to repurposing the existing network for hydrogen heating ahead of government's decision on hydrogen heating in 2026?

We are aware that the cancellation of the village trial will leave some gaps in areas that had been previously identified as requiring evidence to support the 2026 decision. While there is limited time to gather further evidence ahead of that decision, we would suggest Ofgem might leave some flexibility if there are specific evidence gaps that can be filled in a cost effective and timely way.

OVQ6. Should RIIO-3 help to manage future gas network decommissioning costs? If so, do you have views on what these costs could be and what mechanisms should be used, including for anticipatory funding?

In general we agree that decommissioning is unlikely in GD3 although as noted elsewhere the Scottish heat targets (including on heat networks) suggest that this is perhaps more likely in Scotland than elsewhere.

However, a priority for RIIO3 should be to explore how decommissioning might be done most cost effectively and what other opportunities there are for repurposing the networks. We were therefore pleased to see that decommissioning was listed as a potential area for innovation funding. However, we are not convinced that the GDNs have the motivation currently to explore this and Ofgem may need to be more directional in requiring them to articulate clearly what preparatory work they envisage undertaking.

## Overview document – scenarios questions

OVQ7. Do you agree with the proposal to use the FES framework for selecting the RIIO3 scenarios?

Yes broadly. We support having common scenarios across the GDNs to aid comparison and the FES scenarios are the only real option for up-to-date national scenarios. However, the purpose of using scenarios is that they capture the real uncertainties that impact on the question in hand. So, for example, a key factor shaping the future evolution of the gas networks is the extent to which any move away from gas is planned and mandated (at a local level) or whether it remains down to individual consumer choice leaving a small number of customers scattered across the network (which then still needs to be maintained). The FES does not capture this. The companies should be asked to identify any other key uncertainties that impact their (long term) plans beyond those in the FES.

There is also a need to be cognisant of the NESO's plans for the 2024 FES as they begin to look towards CSNP and to avoid large and unexpected changes between draft and final Business Plans.

We also note that the issues are likely to vary by region and we have suggested to SGN that they might usefully look at the DFES to get a more geographically granular view. Alternatively, the regional view from FES might give some of that geographical context. Ofgem should make clear how it expects regional variations to be taken into account.

OVQ9. Do you agree with the proposal to use two FES planning pathways for the gas networks, ie Leading the Way and Falling Short as the additional common conservative scenario?

We agree it makes sense to look at two scenarios to give rough upper and lower bounds on the demands on the gas network in GD3 and beyond – although as noted above it is not clear if these capture the full range of uncertainties.

We would also encourage Ofgem to use these scenarios to shape its own thinking on payback periods and the inter-generational questions around asset stranding.

The use of a crude payback target date of 2036 (as in GD2) would limit how far the networks can genuinely reflect these different scenarios in their business plans and Ofgem should look at whether it can adopt a more nuanced approach. In particular where the networks have to make choices between replacing assets (a more costly but longer lasting solution) or undertaking successive repairs, the best option would - we assume - vary under different scenarios but is constrained by the rules on payback periods.

OVQ10. Is Falling Short the most appropriate common conservative planning scenario to be used for the gas networks? Or is a common gas network developed scenario more appropriate?

In our view one of the reasons for considering a conservative scenario (that may not be consistent with net zero) is to explore the implications for resilience and security of supply if heat decarbonisation progresses more slowly than currently envisaged. Viewed through that lens there may be a case for a scenario specifically designed to test that and to provide clarity on the “insurance” cost of maintaining a robust gas network for a longer period.

While Falling Short may be seen as the most conservative scenario generally, it may not fully capture the issues around delays on heat decarbonisation. For example, we note that in FES 2023 the ESO said:

*“Heat pump uptake is currently tracking System Transformation, and if the UK matches the heat pump uptake levels seen in this scenario through the 2020s, but hydrogen for residential heat is not seen as a viable solution when the decision is made in 2026, then the UK will be well off track for the uptake of heat pumps needed to decarbonise residential heat. The task of bringing heat pump uptake up sharply from this point will also then be more difficult and expensive”.*

Looking at the different scenarios is also important for forming a view on the inter-generational issues around RAV recovery and asset stranding. In this context with large industrial customers currently accounting for a high % of network revenues in some regions (but not others) the pace of progress on industrial decarbonisation is a key sensitivity impacting future domestic energy bills, that may not be adequately explored in FES.

A common gas network scenario could be helpful in exploring some of these issues but does not address the challenge that there are significant differences between the regions.

OVQ11. Is it feasible for all network companies to initially plan against FES 2023 before updating business plans in line with FES 2024, as proposed?

We assume that Ofgem is talking to the NESO to understand the scale of change that is envisaged which will inform this decision.

#### [Overview document – environment questions](#)

OVQ16. Do you agree with our proposal to retain the EAPs and AERs in RII0-3? Please provide reasonings for your position.

We agree that the EAP and AERs are valuable in shining a light on the GDNs' wider environmental performance although we are aware that they are subject to a growing number of other ESG and environmental reporting requirements. Being clear about how the Ofgem requirements fit alongside these would be sensible in minimising the reporting burdens on companies and making it easier for stakeholders to navigate their way through.

OVQ18. Do you agree with our minded-to position of retaining the reputational incentive on TOs and GDNs for reducing their BCF?

We are very aware that shrinkage is the largest component of the GDNs' carbon footprint but this felt downplayed in the EAP/ AER requirements eg because of the emphasis on the BCF excluding shrinkage. It is important that the headline figure does include shrinkage.

We are unclear what in particular comes from having this as a reputational incentive rather than just requiring reporting in the AER (which as noted above should be aligned to wider reporting obligations). That said there is a particular issue for the GDNs who currently cannot have accredited SBTi targets and hence there is particular value in Ofgem ensuring that targets are set on a comparable basis.

OVQ23. Do you have any views on our proposed long-term approach to embedding climate resilience, including the principles for embedding climate resilience?

We strongly support the emphasis being placed on climate resilience and are aware from our ongoing engagement with SGN how major floods / wash out events can threaten customer supplies and the safety of the network. Forecasting the precise locations where such events might occur is a challenge and there will be a balance between preventative work and flexible funding to deal with events as they arise.

OVQ28. Do you agree with our proposed key objectives for truth telling and efficiency incentives?

We would stress as a part of this the need for Ofgem to be clear how trade-offs are being made between outputs and costs. We are aware from our engagement on GD2 that there can be tensions where benchmarking on cost efficiency means companies struggle to justify actions that might be delivering more for consumers.

## Finance document questions

FQ22. GD & GT: what long-term path should regulatory depreciation aim to follow between 2026 and the assumed de-energisation point to promote fairness for current and future consumers? What unit metrics should this be based on? Is this resilient to the various scenarios under FES 2023?

We are pleased that Ofgem has opened the debate on this issue. Given Scotland's earlier target dates for heat decarbonisation, the problem of costs being spread over a shrinking customer base risks becoming a real issue there even in the GD3 period. Ofgem's proposed principle that future consumers should not pay more for essentially the same service feels sensible but we are aware that the bill impact of dealing with this through accelerated depreciation would add to customer bills at a time when many are still really struggling. As such we would like to see Ofgem taking forward a broader debate with stakeholders and customers, with modelling against a range of scenarios.

FQ33. Do stakeholders have any reasons or evidence to suggest more directly remunerated service categories are necessary?

We have been trying to clarify with SGN the treatment of disconnection costs following questions that have been raised by stakeholders. It seems that unless the customer directly approaches the GDN for disconnection, the costs to make the network safe are socialised across all consumers. Clarity from Ofgem on the appropriate treatment of disconnection services would be helpful.