



**Independent
Stakeholder Group**

**NGN's ISG Response to
Ofgem's Call for Evidence
on NGN's Business Plan for
RIIO-GD3**

10 February 2025

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Introduction

Our response is principally aimed at Ofgem and not at other stakeholders, however we hope that we have addressed issues that stakeholders have said are most important to them. We would be happy to engage with Ofgem on topics where we can provide more detailed analysis. We refer to the 2026-31 price control period throughout as GD3.

Context

The ISG is mindful that the Business Plan (BP) and our report should be considered in the following context:

- The ongoing cost-of-living crisis for many households who will struggle to meet any additional rises in utility bills – all of which are set to rise significantly.
- Changes to Ofgem's remit introduced by the new government with a focus on growth.
- The establishment of NESO and the development of strategic regional energy plans.
- Ongoing policy uncertainty around the future of gas for heating and the role of hydrogen.

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Our approach to producing this response and references

We have sought to identify issues of most importance to stakeholders and customers and to illustrate which areas of the plan we were able to influence most during the planning process.

The limit on the word count for the BP submission means that some of the detail the ISG asked for, and in most cases has seen, is not included in the BP (although most can be found in appended documents).

There are some issues of a policy nature, and lessons learned from the process that we will feed into Ofgem's ISG Chairs' Working Group separately.

Issues are posed as questions throughout, and our responses relate to the 24 condensed challenges that we raised with the company once the planning process started at the end of 2023, as well as more specific queries and challenges raised during deep dive sessions or on earlier versions of the BP.

Comments on early drafts

We maintained a feedback tracker which logged all our comments and NGN responses to the issues we raised during the drafting of the BP. Some comments were more material than others and some of these were taken forward for discussion during deep dive sessions.

Many of our comments on the earliest drafts were intended to improve the narrative to ensure NGN provided evidence that was credible and accurately reflected stakeholders' needs and preferences. NGN provided the ISG with feedback on how it had used the ISG comments and where they had/had not influenced the final draft. We were also provided with a statement highlighting where any significant changes had been made between the drafts and final version.

We note here the key improvements made:

ISG Challenge	Impact on GD3 Plan	Outcome
Lack of clear narrative	NGN restructured the business plan, improved storytelling, and linked investments to customer benefits.	Stronger transparency and logical flow.
Insufficient evidence underpinning proposals	NGN introduced more third-party validations, enhanced cost-benefit analysis, and detailed cost justifications.	More credibility in forecasts and justifications.
High TOTEX estimates	NGN reduced forecasted spending by ~£107m by optimizing Repex, OPEX, and CAPEX plans.	5% cost reduction without sacrificing performance.
DEI commitments	NGN committed to 40% female representation at senior levels, and expanded apprenticeship programmes	Target driven improvements in workforce diversity
Stakeholder engagement and transparency	NGN established a Stakeholder Strategic Steering Group and enhanced stakeholder reporting.	Increased visibility of stakeholder input in decision-making.
Research methodologies and stakeholder input	NGN replaced costly 'Willingness to Pay' studies with practical consumer value research.	More efficient stakeholder consultation and cost-effective research.

The greatest change we saw between drafts related to costs. We understand this was due to the lateness of the data tables that GDNs were asked to use to submit their BPs and the time to run the cost models. We did however receive explanations for the changes made and were able to continue to challenge costs and query value for money throughout the planning process.

Challenge log and NGN responses

We raised 24 challenges across the planning process which aimed to improve the quality of the BP. These were registered in a Challenge Log which was maintained and reviewed on a regular basis.

We received satisfactory responses to all our challenges. Whilst not all the proposed changes we sought were made, we were satisfied that they were addressed and had been given appropriate consideration by the time the final version of the BP was submitted.

Behind many of our challenges were two basic questions – why was NGN proposing to do this, and why should gas customers pay for it? This focused NGN on activities that it is best placed to deliver and has the support of stakeholders/ customers following SSMD and consistency in guidance from Ofgem.

Eleven of our challenges related to the business planning process to ensure that issues of importance to stakeholders were addressed. They ranged from:

- Seeking clarity on how customer bills would be impacted by different aspects of the plan.
- Questioning how the vision would drive good behaviors.
- Querying how weaknesses in stakeholder-influenced decision-making processes had been addressed.
- Asking that success factors be more clearly defined and customer outcomes more tangible.
- Pressing for greater levels of ambition in support provided to customers in vulnerable situations.

Three of our challenges relate to longer term issues requiring more engagement with Ofgem and the other GDNs on how to provide more opportunities for engagement with younger people, to establish a tool which helps evaluate customer outcomes of innovation, and clearer reporting to stakeholders on annual performance against regulatory commitments.

Deep dive sessions

Members of the ISG formed subgroups and undertook more detailed analysis of each section of the BP and raised more focused challenges. Where material, these challenges were brought back to the full ISG and registered on the main Challenge Log. There was open discussion during the deep dives with the business leads where issues could be expanded upon and clarified.

Areas of the plan that were developed or updated at later stages in the process, and where we anticipated some significant developments included the strategies for workforce resilience, innovation and data and digitalisation.

Review of supporting strategies/annexes and evidence from other sources

The ISG had the opportunity to review and influence the BP supporting documents, including EJPs, strategies, and most importantly the stakeholder engagement decision log which provides a clear view of how insights were used to influence the BP. It was helpful for us to see the comparative RRP data provided by Ofgem to understand where NGN was performing well in comparison to other GDNs and where the ISG might encourage the company to do better. We also sought additional evidence which allowed us to compare NGN with other utilities and sectors, including benchmarking by Business in the Community.

Overview

How did NGN respond to ISG challenges and feedback?

NGN was receptive to our challenges. All comments and challenges were recorded, and NGN responded to all requests for additional information (see ISG statement in the introduction to the BP). NGN gave due consideration to the issues we raised, and many suggested challenges were accepted. Subsequent changes were made to the plan, providing the ISG with a clear line of sight of how our challenges influenced the plan in the interests of stakeholders and customers. The helpful and efficient administrative support provided by NGN made the work of the ISG flow smoothly and ensured we had access to the relevant business teams at appropriate times and a clear line of sight of how our challenges have influenced the plan in the interests of stakeholders and customers.

Will the plan deliver the intended outcomes?

From the evidence shared with us on the level of resources and investments pledged alongside the commitments, and the culture of the company we have observed, the ISG are confident that NGN will be able to deliver its commitments and intended outcomes. There are challenges, however, that will need to be faced, and some risks around the final stages of the Repex programme and a continued understanding that delivery and success of some of the commitments will rely in part on other parties.

Is the plan ambitious (and in what ways)?

The ISG pressed for NGN to retain a strong sense of ambition and to articulate how its ambition would manifest itself to customers, including what difference it would make to levels of service received.

Early drafts of the BP were less ambitious than the final plan. Changes were made in response to stakeholder views and the influence of the ISG to enhance existing service standards and focus on delivering outcomes of most importance to customers, for example in relation to the level of support to customers in vulnerable situations, and innovation initiatives.

This seemed to empower the management team and help them focus more positively on the essential activities that would help steer pathways to Net Zero through collaboration

that were not focused on hydrogen for heat (where much of the innovation and attention had been in recent years).

NGN has highlighted a number of new and enhanced areas of activity which are the result of triangulated stakeholder insights.

We had reservations about how ambitious NGN was in its plans for innovation in GD2, but we have observed significant changes and enhanced ambition in innovation over the past 4 years.

We have also seen evidence that NGN is focused on fulfilling its regulatory commitments efficiently whilst adding value to the regional communities and economy. Overall, the BP demonstrates ambition in delivering services efficiently, enhancing customer service and completing Repex within the HSE timeframe. We would have liked to see an ambitious target for Equality, Diversity & Inclusion (EDI) and more ownership on how GDNs can drive a digitalised market to support Net Zero and growth (both beyond Ofgem's own vision), but this will require more baseline data and is something to be developed through GD3. The ISG will monitor and hold NGN to account in assembling data and setting meaningful targets.

Issues for Ofgem to investigate

Throughout our response to the Call for Evidence we have highlighted issues that Ofgem could usefully explore further with NGN or more widely. This may be because it is not within the ISG remit – for example detailed scrutiny of costs and finance (although we did ask questions around who bears risk). But there are other issues identified by the ISG that require wider industry engagement and policy thinking that Ofgem should properly lead on.

Chapter 1 - Track Record and Deliverability

What is the ISG level of confidence in NGN's performance record and approach to meeting customer needs in GD2?

The ISG have scrutinised NGN's annual performance set out in its Regulatory Reported Performance (RRP) reports to Ofgem. NGN has met its output targets and has maintained high levels of customer service. NGN has also provided evidence to us of how it has used network investment allowances efficiently in GD2 to avoid higher costs in GD3, for example in the mix of Repex works. We are confident that NGN has a good understanding of how to engage effectively and deliver the commitments and pledges it makes to customers.

Any areas of significant change being made to address GD3 outcomes?

We agree with NGN that many of the changes it instigated to improve its efficiency and performance were established in GD1 and enhanced in GD2 – including investment in Data and Digitalisation (D and D) to streamline business functions internally and contracting the Repex programme to smaller local contractors across the region. No fundamental changes to the business model are being proposed as needed for GD3. Although NGN is alert to the need to respond to skills and resourcing as policy changes are introduced.

How does the company vision and culture impact NGN's ambition?

Vision

The ISG are content that NGN's vision has been informed by suitable stakeholder engagement and relates to longer term outcomes. We encouraged NGN to consider its impact on the region and how its BP could help fulfil the vision and ambitions of regional stakeholders. NGN's vision for the future reflects feedback from stakeholders on their ambition for greater wealth and prosperity of the North and recognises its wider role in supporting the economy in the north of England as well as the role it must play in the transition to Net Zero.

Culture

The ISG strongly believe that the impact the culture of an organisation can have on performance cannot be understated. Throughout the BP process we have seen a collegiate approach and a strong management team working together to maintain BAU activities on behalf of customers and to improve workforce welfare. However, to ensure delivery of GD3 BP, if accepted by Ofgem, it would require the company to continue to shape its workforce strategy. A careful exit plan at the end of the Repex programme is proposed and the impacts on the supply chain and workforce have been considered which is important for the supply chain that NGN relies on to deliver its pipe replacement programmes. NGN's drive to retain frontier status, to work efficiently and reduce risks to shareholders and customers alike is clear.

Impacts on ambition

Whilst NGN has a longer-term vision, it is taking a realistic stance on the need to maintain a safe and reliable network until there is greater clarity on future sources of heating and the role of hydrogen. Ambition in some areas is therefore somewhat limited, and we are concerned that the need for and reliance on- re-openers, due to an evolving policy arena, will require careful planning (and at times very short notice) in terms of new roles and skills within the company. Reliance on uncertainty mechanisms may detract resources from delivering existing commitments and could have cost implications for current and future customers that were not shared with them in acceptability testing of the BP. Ofgem considers the risk impact of including re-openers and added costs to consumers. It should encourage the companies to be fully transparent with consumers on future bill impacts and outcomes.

But a culture of continual improvement exists in NGN which drives ambition to retain its status as the most efficient gas network provider, and its approach to collaboration will also help it succeed as it approaches the Net Zero and whole systems challenges that will emerge more clearly in GD3.

Issues for Ofgem to investigate (reference later chapters for more detail)

- **Measuring success** – we welcome the six measures of success by which the GD3 plan can be assessed but feel there needs to be tangible criteria established that are then reported on which go beyond RRP outputs.
- **Regional ambition and Net Zero**– some of NGN's proposed activities with regional partners and local authorities will depend on guidance from NESO and the development of RESPs (initial regional plans not due to be published in 2027) to focus on whole systems approaches to energy planning. At this stage it is difficult to fully understand the scale of stakeholder engagement required to develop the energy system for the North that will meet local ambition and national targets.
- **Company culture** - this is often deemed difficult to assess but with measurable outcomes linked to the vision, success criteria and BP outputs, Ofgem will be able to monitor the impact NGN's culture is having on, for example, enhancing workforce resilience, supporting the most vulnerable households, delivering a bespoke ODI on gas restoration times, and environmental targets. Ofgem might usefully consider how it compares GDN cultures as part of its assessment of deliverability and customer service and how it reflects changes Ofgem wish to see around issues such as EDI, skills for the future and workforce retention, attitudes to growth and investment risk.

Chapter 2 - Stakeholder Engagement

The ISG has been impressed by NGN's approach and dedication to engaging widely and effectively with stakeholders on an ongoing basis to inform all of its activities. This engagement extends beyond what might be expected and includes regular workshops with target groups of stakeholders such as the Citizens' Panel (CP), the Young Innovators Council (YIC) and the Customers in Vulnerable Situations (CIVS) groups that include stakeholders from across the region, who benefit from, support, or help develop NGN funded projects designed to benefit communities who are more vulnerable to the activities of the utilities sector.

What were the key areas of challenge and what has been the impact of ISG and engagement insights on the creation/refinement of the BP?

1. Engagement Strategy for the production of GD3 BP

NGN identified key principles for meaningful engagement to develop its BP for GD3. These are clearly set out in the engagement strategy document.

The strategy built on the engagement methodologies put in place to develop BP delivery plans during the first 3/4 years of GD2 allowing NGN to consult with established current and future customer groups, and track customer attitude trends via surveys. The company was also able to use this position to identify and select other groups/partners with whom to engage and broaden its reach.

The Stakeholder Engagement and Decision Log annex to the BP was reviewed for accuracy by the ISG prior to submission. We can confirm that the content is based on evidence presented to the ISG. This was relatively easy for NGN to assemble as the data had been collected and reviewed by the ISG throughout GD2 and the planning process.

The ISG requested that a version of the BP was made available for stakeholders that avoided jargon and provided feedback

on how their views have been used to inform and develop the plan. NGN produced a version published alongside its full submission that helps to demonstrate its commitment to transparency.

We challenged NGN to think about inclusive systems rather than segmenting customers by their circumstances which had also been raised by the CP. This would not only make commitments much broader but would encourage NGN to think about inclusivity across the business. As a result, NGN developed its Inclusivity Engagement Framework designed to ensure inclusivity across the range of business activities, which has influenced its approach to workforce inclusion and belonging strategy (see Chapter 5)

2. Research methodologies

The ISG were skeptical of the value of expensive 'Willingness to Pay' and 'Acceptability' testing that had been used to develop the GD2 BP. We invited NGN to think differently to develop more meaningful surveys and research methods to help them gain better insights.

For example, we reviewed the customer value perceptions survey and suggested using a 'shopping basket method' where stakeholders were able to select which elements to keep and which to reject in order to better understand where they placed value and achieve a clearer picture of what customers were willing to pay overall. Whilst this was not adopted, the new survey and wider engagement methodologies are more fit for purpose in identifying the value customers place on BP activities.

The ISG also encouraged NGN to explore acceptability for the final proposals once insights had been triangulated and the costs and bill impacts were finalised, but only with a more informed audience in a stakeholder workshop. The numbers were therefore relatively small and not a representative sample, but views were based on a deeper understanding of the options that had been explored to reach the final BP. NGN has set out the ratings it received during this exercise as evidence of stakeholder acceptability.

3. Triangulation of findings

NGN undertook its own analysis of the insights gained through stakeholder engagement underpinning this with work carried out by external consultants to triangulate findings and map insights from the different stakeholder segments identified by NGN.

NGN has reflected on the different views it heard and has set out how it sought to address conflicting views – with the balance tipping more towards keeping the bill impact as low as possible given the affordability challenges of the region’s customers. These insights are used to good effect in the BP to highlight customer priorities and preferences and how they have been incorporated into the final plan.

4. Processes and governance of decision-making

The ISG challenged NGN to ‘Ensure that the stakeholder-influenced decision-making process is robust, and weaknesses in the process are addressed’ (Challenge 10 on 12/4/2024). As a result, a Strategic Stakeholder Steering Group (SSSG) was established comprising key business leads to triangulate and review insights from stakeholder engagement on a quarterly basis. This has improved visibility of how stakeholder views have impacted NGN’s plans and meetings have been observed by the ISG.

The Stakeholder Engagement and Decision Log annex to the BP was reviewed for accuracy by the ISG prior to submission, and we were satisfied that it reflects what the ISG has observed during engagement sessions and the review of the insights by the business leaders at SSSG meetings has led to the impacts NGN claims in the annex document.

The ISG Challenge 5 raised on 12/4/24 was to ensure that NGN provided feedback to stakeholders on how their input had led to changes to the BP proposals. NGN told us this would be addressed through iterative testing of their proposals in different waves of engagement and the ISG saw evidence of this testing at a detailed level at the CP workshops. The key insights are reflected in the main BP as well as the supporting decision-making annex.

5. Issues impacting Future Customers

The ISG share NGN’s belief that there is real value in engaging with future customers, particularly on issues of innovation, sustainability and pricing to bring new thinking and perspectives in response to evolving societal expectations.

We explore this in more detail in Chapter 3, but the views of future customers have been a feature of the engagement strategy for GD3. The well-established Young Innovators Council has been a valuable means of gauging reactions to current NGN activities and test views on proposals for the forthcoming price control period. Insights from future customers were sought on a range of issues such as recruiting a more diverse workforce, support for vulnerable customers, and environmental targets. NGN has shown in the BP how those views have been considered.

Summary

Key areas of challenge by ISG/Stakeholders and impact on the plan

Area of Challenge	Impact on BP
Ensure engagement to assess how customers consider value for money	Devised Value for Money methodology which underpinned the options presented to customers and ultimately tested for acceptability
Presentation of bill impacts of the BP that customers can understand	Waterfall diagramme provided and explanation of impacts on the bill at the stakeholder acceptability workshop
Demonstrate how customer views have influenced the BP	Insights referenced throughout the BP with annex providing information on decision making leading to the final BP proposals

Are proposals in line with customer priorities and preferences?

The engagement strategy to help inform and create the BP has been successful in helping customers consider the options available and to articulate their priorities, preferences, and acceptance of the BP.

Feedback from the stakeholder panels and working groups has been positive about the way in which NGN has engaged. NGN proposes to continue their core engagement groups into GD3 refreshing membership on a regular basis. This is in line with feedback from those groups who have seen the influence and impact they can have.

Readiness for RIIO-GD3 – Does NGN need further insights/engagement/planning?

Challenge 23 posed by the ISG on 7/10/24 is that NGN work with Ofgem and other GDNs to ensure that the voice of young people and future generations is better heard and responded to. NGN has done well to establish its Young Innovators Council, and we feel a consistent approach across all networks would help address the big issue of the future of gas and the gas network.

Challenge 24 also posed by the ISG on 7/10/24 pressed NGN to provide more customer-friendly benchmarking information on their annual performance reporting against the main BP commitments. The ISG has challenged NGN to collate information from RRP data provided to Ofgem and costs into a simplified presentation for customers outlining the benefit to customers of the BP and to continue to develop and utilise the strongest aspects of its stakeholder engagement strategy.

This might be something Ofgem can facilitate through shared data, and it would help connect customers with the regulatory process, better enabling them to challenge their company on areas of poorer performance.

NGN has retained its ISG since its inception; which means we were able to monitor and scrutinize preparedness for the delivery of GD2 and the subsequent delivery of that plan and preparation for GD3 in a consistent and cohesive way. The retention of an active and fully engaged ISG helps to ensure that issues raised in the planning process can be further scrutinised and monitored so that the delivery of the GD3 programme can flex in line with changing stakeholder and customer needs and policy changes at what is likely to be one of the most challenging periods for the industry.

Is the Stakeholder Strategy for 2026-31 appropriate and following the 5 principles NGN has set out?

The ISG is very satisfied that NGN's proposed engagement strategy builds on what is already an effective and meaningful approach to engaging with stakeholders. There will need to be significant engagement during GD3, and NGN is anticipating that this will involve more engagement at a regional level to work with agencies developing the RESPs, to consult on major projects to be delivered under Uncertainty Mechanisms, and in response to Government policy decisions

about the future of gas in home heating, including potentially trials to test decommissioning parts of the gas network. This latter matter has not been tested in any meaningful way yet with customers and will become an important topic for engagement in GD3.

NGN has established effective working groups and is using external agencies to advise on appropriate methodologies. It has also created strong partnerships with neighboring utilities to ensure not only that it shares knowledge and resources to benefit customers but also, so it is able to inform, support and influence policy changes to the best effect for customers and the region.

We welcome NGN's commitment to honesty as difficult decisions will need to be made to transition to Net Zero that customers are not yet equipped to deal with. Taking an iterative approach to test out and develop proposals will provide confidence that customer views have been considered. More cross-utility communication and engagement will be essential to avoid confusion amongst stakeholders and we have seen evidence that NGN is preparing well for this. As digital and Artificial Intelligence (AI) communications become more widely used, we have urged NGN to continue to ensure non-digitally enabled customers are engaged in important decision-making and the continuation of a CP will help provide a breadth of views, identifying how to design services in response to their needs in the context of major policy changes. It is essential, in our view, that no group of customers is excluded and both NGN and the wider sector have a responsibility to ensure this.

Issues for Ofgem to investigate

The ISG challenged NGN to seek support from Ofgem to ensure the voices of young people are heard by all GDNs to ensure a collective approach to serving future customers. This may be something Ofgem's newly formed ISG Chairs' working group could usefully explore.

NGN informed us that whilst engagement methodologies varied between companies, there are some common criteria that allow benchmarking. It would be helpful for the ISG's ongoing monitoring work to understand which criteria Ofgem is using to compare performance, and which is deemed to be best practice.

Chapter 3 - Quality of Service

Are NGN customer commitments in line with customer preferences?

Customer support for NGN's commitments is referenced within the BP and is based on insights from across its engagement programme. Many key messages from stakeholders are highlighted throughout the plan. Testing of the commitments for GD3 was carried out with a range of stakeholders, the majority of which was observed by members of the ISG. We are confident that the insights gained have been carefully triangulated and used by NGN's Stakeholder Strategic Steering Group (SSSG) to refine its proposals in this chapter of the BP. The ISG is supportive of NGN's commitments set out in this chapter.

Customer Satisfaction and complaints

Are the proposals ambitious?

The ISG challenged NGN to demonstrate stronger ambition in several areas of the BP, one of which was NGN's intention to maintain its customer satisfaction (CSAT) score of 9.2 during GD3. NGN believed this score would be challenging for connections and could increase costs but accepted that to demonstrate ambition it should not just sustain existing performance but seek continuous improvement on behalf of customers. The drive is now to not just meet, but to exceed the 9.2 performance level. We are content that NGN has carefully considered the implications of this target.

The ISG has had concerns about the reported levels of SROI across the sector as some of the values that have been reported seem unusually high for the projects involved. In the draft BP NGN included a target for SROI which the ISG did not feel customers/stakeholders had asked for, nor was useful as a comparator or benchmark given the variation mentioned above. The ISG also did not believe such a target was beneficial to customers who, the ISG had observed, sometimes struggled to understand the concept, and felt that value could be measured in other ways. As a result, NGN removed this from the plan.

Are the proposals in line with future customer priorities and preferences?

The impacts of the GD3 proposals on future customers are clearly considered throughout the BP. NGN has demonstrated a commitment to addressing long term challenges to reduce risk for future customers.

The ISG has consistently reminded NGN that future customers are not limited to young people, but also those who have not yet lived as a tenant or homeowner, to ensure the company is considering the needs of all future customers.

That said, there has been a significant focus on younger people through the YIC with whom NGN has engaged regularly, and has tested commitments, proposed outputs, and acceptability of the BP. This group provides NGN with valuable insight into the priorities of young people aged 14-19 years and helps the company understand how it can most effectively engage with future customers.

The YIC also allows future customers to have a direct impact on decision-making far in advance of them becoming customers, since any decisions made now will carry impacts into the future. YIC members also have a 'you said, we did' session at the start of each meeting to help the group understand the impact of previous discussions and decisions which strengthens involvement and informs future decisions.

Two previous members of the YIC have been members of the ISG for over 2 years, regularly bringing a challenge from a future customer perspective to our deliberations. As a result of their challenges regarding work and skills training opportunities, the BP now provides a commitment to attracting new talent through developing the apprenticeship programme (60 new GD3 apprenticeships) and launching a graduate programme to strengthen resilience and meet skills shortages. This has the support of the full ISG.

Whilst the value and contributing factors of the customer bill have been explained well during engagement sessions with customers, future customers are particularly concerned about **cost**:

- The continuing rise in the price of the bill.
- The impact decommissioning the gas network will have on the price they pay when they do become customers.

The changes and challenges of moving away from gas are difficult concepts to grasp, particularly for those who have not yet been involved in using services as a bill payer. Detailed and targeted engagement, combined with a clear and concise information programme, will be essential for this group of customers in GD3.

Other insights from the YIC illustrate how **vulnerability** is viewed differently by younger people and that whilst some traditional areas of temporary vulnerability such as loss of a job or illness are important, other factors such as access to wireless networks are important factors when considering vulnerability in the energy sector. Future customers have indicated their support for the development of robust, sustainable VCMA projects that will have a lasting community legacy, which is reflected in the BP.

Social media is a key channel of communication for many younger people, but it has the potential for abuse as complainants are able to complain multiple times and in some instances in a vexatious or frivolous manner.

Whilst the ISG was aware that currently, social media complaints are not a large feature of NGN's complaint performance, we were keen for NGN to demonstrate that that it is able to monitor and respond to increasing volume. NGN's response was to confirm that it will not only monitor and voluntarily report on complaints received via social media but will also ensure that they are treated in the same way as other complaints, thus embedding this communication channel into its complaints' performance.

Bespoke Outputs

Does the ISG support the proposed bespoke output relating to 7- and 28-day repair standards?

The ISG and NGN customers supported this proposal for GD2, but it was rejected by Ofgem at determination. The case was made again at the GD3 stakeholder BP Acceptability Workshop where customers and the ISG continued their support, for several reasons:

- NGN is already meeting this standard.
- There are no additional costs to NGN customers.
- The outcomes are in line with customer preferences for minimising disruption and so not impacting customer service; for reducing leakage, and for ensuring resilient supplies while keeping costs as low as possible.
- The ISG recognise the benefits to all customers in completing repairs quickly, reducing inconvenience and reducing emissions into the atmosphere.
- There are benefits to NGN/GDNs of significant carbon monetary savings and efficiencies in workforce deployment.
- The ISG are supportive of best practice being adopted across all networks to avoid a post-code lottery for gas customers. This is also in line with the views expressed by NGN's CP when this was tested with them and from responses to a Customer Values Perceptions survey. The CP believe that NGN should use its own frontier performance to drive this forward.

The ISG also note that NGN is seeking a slightly lower target for 7 days than its own current performance, which highlights the lagging performance of other GDNs and the current performance of NGN. The CP has previously indicated its support for NGN to achieve some benefit for its frontier performance across GD1 and GD2.

Multiple Occupancy Buildings (MOBs)

We understand the safety concerns that underpin NGN's proposals to remove gas from all MOBs, and the impact on timescales due to the involvement of third parties in the process.

The ISG asked NGN where there were opportunities to improve not only its own performance, but to also influence the processes of third parties such as landlords and Local Authorities to ensure a quicker, smoother process for customers until a decision is made on the removal of the gas in these properties.

We shall monitor this in GD3 to ensure tenants' interests are properly considered, but we are content that there are good working practices and engagement to ensure that any works are carried out in the interests of safety.

NGN readiness and any further insights/engagement/planning required?

NGN has demonstrated that it has good processes in place to deliver its mandatory targets including ongoing training for the workforce dealing with complaints/customer service enquiries and supporting customers through the process.

Engagement with MOB landlords and understanding of the implications for their tenants will be a vital next step if NGN move forward with proposals to remove gas from all MOBs in its region.

Issues for Ofgem to investigate

How SROI is applied and other metrics to illustrate the benefits to customers and the value customers place on different initiatives

NGN's BP emphasises the critical role of its gas network in the transition to Net Zero, recognising the uncertainties tied to the UK's hydrogen policy, uptake of other heating options and future gas demand.

The BP highlights the importance of whole systems integration, including cross-sector collaboration with electricity and water networks, to address decarbonisation challenges. NGN's approach includes leveraging flexible network design, such as sectorisation and network repurposing, while maintaining resilience and exploring opportunities in hydrogen deployment.

Overall, the ISG were satisfied with the proposals in this section of the BP (3.4) which articulated the key activities in the Transition to Net Zero and Environmental Action Plan. More detailed commentary is included for the related sections in Chapter 4, but some specific observations are offered below.

Is NGN demonstrating ambition?

NGN's commitment to a Net Zero future is evident through its commitment to developing a hydrogen for heat project bid (Redcar Hydrogen Community Trial) and the Net Zero Research Village (NeRV). These initiatives explore decarbonised gas solutions while addressing regional and national energy transition goals. The ISG challenged NGN to ensure alignment with Regional/Local Net Zero plans and to fully integrate whole systems thinking.

A significant focus area is NGN's role in network sectorisation and disconnection strategies to support hydrogen deployment and the electrification of heat. The BP highlights that a decline in gas demand will not necessarily correlate with proportional increases in disconnections (efficiency improvements and thermostat reductions will play a role). Investment in disconnection and decommissioning strategies is planned during GD3 to ensure network resilience while adapting to new energy demands.

Simplifying and reducing the cost of gas disconnections is critical for accelerating the transition to non-hydrogen low carbon solutions. A barrier to consumers shifting to heat pumps is the gas disconnection cost currently averaging £1,950 and projected to rise. Complex regulatory procedures act as a further barrier resulting in the prolonged reliance on the gas network. A streamlined and lower-cost framework for disconnections is needed to empower consumer choice, prevent financial inequities and ensure gas networks evolve efficiently in alignment with a decarbonised energy system.

The ISG undertook two deep dive sessions into NGN's strategic approach to Whole Systems and the development of its Energy Futures analysis and strategy in addition to presentations and discussions at monthly meetings.

Key areas of challenge and impact on BP

Challenge	Impact on BP
Addressing uncertainty around hydrogen policy	The limited strategic investment in hydrogen infrastructure hinders clear planning and is mostly outside the scope of the BP.
Responding to the lack of clear electrification strategies	The rate of adoption of electric heating and consequent impact on network decarbonisation goals was considered and a commitment made to a whole systems approach.
Alignment with regional and local plans	Commitment to alignment of regional priorities to reduce inefficiency of decarbonisation efforts.
Addressing disconnection and decommissioning complexities	Challenges in maintaining network resilience during transition periods could impact customers willingness to change if difficult and expensive. NGN approach to UMs will enable it to respond when there is greater policy certainty

Do proposals meet stakeholder/customer priorities?

Stakeholders have emphasised the importance of NGN providing clear pathways for both hydrogen and electrification as viable solutions. This includes simplifying the disconnection processes for households transitioning to electric heating and ensuring the scalability of hydrogen solutions. NGN's focus on understanding future disconnection needs aligns with stakeholder calls for transparency in energy transition strategies.

NGN Readiness for GD3 – What further insights/engagement/planning is needed?

NGN demonstrates readiness through its research into future disconnections and decommissioning needs, which includes strategies for managing Multiple Occupancy Buildings and planning for a minimum viable network structure.

These efforts, combined with hydrogen sectorisation plans and collaboration across utilities, position NGN to meet the evolving demands of energy transition during GD3. However, further clarity on integrating findings from BP reopeners and addressing policy delays in hydrogen and gas infrastructure is required.

Ofgem has indicated its intention to explore the implications of decommissioning. Whilst the industry may understand the implications, customers do not, and further engagement will be vital to prevent resistance when there is certainty about what actions are needed and timescales.

Issues for Ofgem to investigate

Ofgem should consider how the milestones and measurable outcomes for NGN's plans ensure alignment with regional decarbonisation goals and UK energy and climate change policy as this unfolds.

Ofgem should investigate high disconnection costs, regulatory complexity, impacts on Net Zero goals, consumer protection and long-term network viability to ensure a fair, efficient and sustainable transition to Net Zero.

National Energy Research Village (NeRV)

Learning from the Redcar hydrogen trial to support the Fife by Following the development of the Redcar Hydrogen Community trial bid, that was not progressed by the UK Government, NGN has moved its Net Zero innovation and focus to the NeRV, further developing its existing Customer Energy Village. This project has had significant oversight by the ISG.

The ISG is supportive of the NeRV and sees it as an excellent next step from the Customer Energy Village/Futures Close projects to support the UK's need to decarbonise housing. The NeRV aligns well with the UK Net Zero policy requirements and ambitions, and it aligns with UK policies, including the recent Clean Power 2030 publication from NESO, focusing on demand side response, virtual power plants, and smart grid innovations.

NGN should clarify how NeRV specifically contributes to these goals and ensure alignment is reflected in measurable outcomes. Over the next 12 months we would like to see NGN develop: Clearer articulation of NGN's unique suitability to deliver NeRV; a financial sustainability roadmap post-RIIO-GD4; enhanced integration with UK policy priorities and RESP objectives; the development of structured knowledge-sharing mechanisms.

What were the key areas of challenge by the ISG and what was the impact on the BP?

Two specific challenges from the ISG were:

1. Why NGN should lead on NeRV and
2. Why gas customers should pay for 90% of the £16.5m costs.

Why should NGN do this?

The NERV EJP and BP reference NGN's experience with previous projects, including Futures Close, HyDeploy 2, a Battery Energy Storage System (BESS), and a Solar PV installation. These initiatives demonstrate NGN's technical expertise and innovative leadership in decarbonisation projects.

NeRV provides a means for NGN to deliver its ambitions for the region and Net Zero. The ISG asked for a clearer articulation of NGN's unique suitability to deliver NeRV. NGN has developed some strong partnerships which will be needed to maximise the benefit of the research village facilities that are already in place. Collaboration is essential for success and to ensure confidence in project delivery and value for money for customers.

Why should gas customers pay for this?

The EJP document does not fully address why gas customers should fund 90% of the total £16.5m cost, and further consultation with commercial and other partners would strengthen the case for this investment over the longer term as new products and whole house solutions to decarbonisation are developed.

Key areas of challenge and impact on BP

Key area of Challenge by ISG	Impact on BP
Why should NGN do this?	Several iterations of the proposal were presented, and a clearer proposition was developed for the final BP
Why should gas customers pay?	Initial costs were reduced, and NGN is seeking more collaborators to fund the research.
Align the NeRV EJP to UK policy and Net Zero targets so it's easy to understand the impact the project could.	NeRV proposal aligned with UK policy including upcoming carbon budget (and COP30) to show the potential decarbonisation benefit of the project (decarbonisation of homes – new and existing).
Strengthen the link with Regional Energy Strategic Plans (RESPs) and explicitly mention RESP alignment in the project benefits section.	The NeRV EJP includes references to RESP integration, positioning NeRV as a critical asset in supporting RESP objectives.

NGN readiness for GD3 and what further insight/engagement/planning is needed?

NGN must deepen engagement with partners and potential collaborators in NeRV to refine its value proposition, ensuring both current and future gas customers gain and see clear tangible benefits particularly regarding housing efficiency and electrified heating.

Failure to advance NeRV poses a significant risk to the UK's housing decarbonisation efforts. Without this initiative whole house and product research trials could see multi-year deployment delays, hindering the transition to low carbon heating and slowing efforts to net-zero goals. The site's infrastructure and partnerships make it an optimal candidate for immediate development.

Is the proposal ambitious and in line with customer preference?

The proposal demonstrates ambition in seeking innovative products and whole house decarbonisation solutions. There have been a number of stakeholder visits to the site and several commercial partners are already on board.

This area of activity has been a focal point of discussion and challenge by the ISG since the group was established. We had reservations about how ambitious NGN was in its plans for GD2, but we have observed significant changes and renewed ambition in innovation over the past four years. Quantifiable customer benefit outcomes of innovation projects in GD2 have been difficult to assess and not always been evident to the ISG, but there has been a greater attempt to consider potential outcomes in the design of innovation projects.

Over the course of GD2 the ISG has observed changes in the way in which innovation is managed, and internal governance arrangements. Much attention was focused on developing the case for hydrogen in GD2, although many other innovation projects were successfully designed and delivered, and several initiatives were reported on and presented to the ISG. On site visits and at a supply chain event we observed how innovative products and solutions were being deployed in the field, for example pipe insertion techniques and digital mapping of assets.

A new innovation strategy has been developed, which is now more focused on the outcomes for GD3, and a new team has been assembled to shape the future approach to deliver the strategy. We are content that the proposals demonstrate enhanced ambition in scale and that the proposed projects explore areas important to the future of energy systems and customers. However, the ISG are particularly keen to ensure NGN takes advantage of other innovation funding sources and develop partnerships outside the GDN sector rather than rely on customer funding,

Is NGN demonstrating ambition when considering innovation? What were the key areas of challenge and what was the impact on the BP?

NGN's Innovation Strategy for GD3 emphasises embedding innovation into core business practices. Projects like the National Energy Research Village (NeRV), vulnerability mapping tools, and implementing SAP S4/HANA demonstrate ambition in driving efficiency, sustainability, and support for vulnerable customers.

The £15.5 million NIA funding request and the £12.5 million UIOLI allowance underline NGN's commitment to leveraging innovation funding to achieve net-zero targets and customer-

centric improvements.

Key challenges by the ISG related to three areas:

- **Collaboration Gaps:** Greater detail on partnerships with academic institutions, Catapults, and other stakeholders to strengthen cross-sector innovation efforts.
- **Knowledge Dissemination:** A more structured approach to sharing lessons and outcomes from innovation projects, including forums and targeted events, to enhance transparency.
- **Hydrogen Deployment Risks:** Clearer articulation of supply chain risks and dependencies related to hydrogen deployment to build stakeholder confidence and potentially influence policy decisions.

Key areas of challenge and impact on BP

Challenge	Impact on BP
Collaboration gaps with academia and SMEs	Opportunities considered to integrate cutting-edge research and broaden the innovation ecosystem (using previous gas industry arrangements of innovation hubs with formal academic ties).
Insufficient dissemination of outcomes	A commitment to enhanced engagement will improve stakeholder understanding and the wider application of project lessons across the industry, especially from failed projects. To be developed.
Demonstrate success metrics and customer outcomes/benefits	A benefit identification model being developed by Ofgem and the GDNs to be applied to projects.
Lack of regional priority integration	Risks misalignment between innovation projects and the unique needs of local communities. NGN will learn lessons from its new GD2 NIA collaboration with other utilities across the region to develop a GFES model for regional energy systems planning. Expect outcomes to be adopted for GD3.

Are the innovation proposals in line with customer priorities and preferences?

Stakeholders have expressed strong support for NGN's innovation initiatives, with a 76% acceptance score reported for the Innovation Strategy. NGN has demonstrated through the triangulation of customer insights how the proposed projects meet customer priorities. Key themes include:

- **Alignment with decarbonization goals:** NIA Projects and the NeRV address stakeholder priorities for a just and fair energy transition.
- **Customer vulnerability focus:** Innovation efforts targeting vulnerable customers align with stakeholder concerns around affordability and inclusivity.
- **Digitalisation:** Stakeholders value investments in advanced digital tools and AI to improve operational efficiency and customer service.

Stakeholders have also called for:

- Specific engagement strategies with underrepresented groups, including SMEs and local communities.
- A clearer framework for identifying and integrating regional priorities into the innovation roadmap.

NGN Readiness for GD3 and what further insight/engagement/planning is needed?

NGN has laid a strong foundation for innovation in GD3, characterised by:

- **Integrated governance:** A structured innovation process supported by a project sanction group ensures accountability and robust project selection.
- **Embedded innovation culture:** NGN demonstrates a commitment to embedding innovation into its working practices, with innovation positioned as a core crosscutting business activity rather than an isolated function. The new team and processes have this as a priority in early GD3.
- **Strategic vision:** The emphasis on whole systems thinking, collaboration, and adaptability positions NGN to address future challenges effectively.
- **NGN's support for innovation through collaborative bodies:** NGN drives innovation through mechanisms like the Network Innovation Allowance (NIA) and Strategic Innovation Fund (SIF), focusing on decarbonisation, customer vulnerability, and efficiency. Collaborations with the Energy Innovation Centre (EIC), academia, and research partners bring ideas to life, while the Use-It-Or-Lose-It (UIOLI) allowance supports energy transition and digitalisation. NGN's role in Future Energy Networks (FEN) and cross-sector forums ensures alignment with industry goals and net-zero ambitions.

Areas NGN can usefully develop further before the start of GD3 and Ofgem may wish to explore

- Strengthening governance structures to enhance transparency in decision-making. The development and deployment of new processes needs to be supported and tested in its initial rollout.
- A robust 'lessons learned' framework to enhance opportunities to refine methodologies, enhance outcomes, and drive continuous improvement, and to ensure insights are effectively captured and applied.
- Defining success metrics for innovation projects and aligning them with broader business and customer outcomes – with monetised impacts.
- Developing benefit metrics of Future Energy Networks (FEN) and other Cross-Sector Forums more clearly.

Customers in Vulnerable Situations

Are proposals in line with customer priorities and preferences?

The ISG has seen clear evidence that NGN's priorities are in line with customer preferences. The ISG has observed how well-prepared NGN was for delivery during GD2 while simultaneously preparing for GD3 and we have observed a strong culture of looking after the interests of customers, particularly those in vulnerable situations. This approach is continuing into GD3.

Through deep dives, observation at stakeholder engagement and NGN /industry events such as the VCMA Showcase, we have seen evidence of NGN's mature approach to vulnerability. NGN recognises that vulnerability is often due to changing circumstances, such as the cost-of-living crisis. Customers who would never have previously deemed themselves as vulnerable find themselves in challenging situations where they require more help. This has been particularly evident during engagement with the CP where NGN was challenged to continue to do more to prioritise these customers.

Are proposals ambitious?

Whilst NGN has a strong focus on meeting the needs of its most vulnerable customers, the ISG challenged the company to be more ambitious in several areas, and to push to do even more in areas where stakeholder feedback had indicated their support. Following a review of the CIVS Strategy at a deep dive session, NGN updated its strategy to demonstrate stronger ambition with clearer links to customer insights to each of the 21 vulnerability commitments.

During the BP review process described above, the ISG also challenged NGN on the value of the VCMA it was seeking in its GD3 settlement. The ISG felt that the draft bid was insufficiently ambitious to meet its ambitions, and as a result NGN increased the amount of VCMA funding from £10m to £15.9m to provide a level of service that was more in line with the priority placed on this by customers. NGN provided the ISG with evidence that it, and its partners, are able to deliver at the higher rate or to scale up or down depending upon the final determination.

Through the planning process NGN increased its ambition in terms of the scale of outputs and meaningful outcomes to support customers in vulnerable situations. It has enhanced

packages delivered in GD2. Its commitments are clearly described and have the support of the ISG.

How is NGN using Innovation funds to address vulnerability?

At the start of GD2 the ISG challenged NGN to develop more robust design and governance processes for NIA projects intended to address fuel poverty and vulnerability. We applaud the turn around which has resulted in more meaningful innovation project development and delivery supported by charity partners and stakeholders.

The ISG support the increase in NIA funding for vulnerability in GD3 to meet the future challenges associated with heat decarbonisation and increasing bills leading to greater financial vulnerability.

During GD2 and planning for GD3 the ISG challenged NGN to extend its reach in terms of the type of projects it supports and the geographic focus to ensure no customers are left behind as major changes occur in the region's energy systems. This approach is reflected in its innovation proposals for GD3 which also have the support of the company's delivery partners.

Is NGNs vulnerability strategy aligned with proposals for Net Zero?

The ISG challenged NGN to ensure its vulnerability strategy was aligned to the full business plan commitments and in particular its strategy for Net Zero. NGN demonstrated to the ISG at a deep dive session how its proposals were in line with the principle of a safe and just transition to Net Zero as described in a report NGN had commissioned by NEA.

The ISG is satisfied following the deep dive session that NGN's proposals on Net Zero and vulnerability are aligned.

Are proposals inclusive?

During deep dives in relation to both stakeholder engagement and CIVS, the ISG regularly challenged NGN to move away from the notion of 'hard to reach customers', instead considering how customers access NGN services and support, particularly those in vulnerable situations and to consider an inclusivity assessment for projects and approaches. A much more sophisticated approach to vulnerability has been developed recognising specific characteristics which will focus on households with needs that have not been identified previously and refocus support where most needed.

We also challenged NGN to think about inclusive systems rather than segmenting customers by their circumstances, which had also been raised by the Citizens' Panel. This would not only make commitments much broader but would encourage NGN to think about inclusivity across the business. As a result, NGN developed its Inclusivity Engagement Framework designed to ensure inclusivity across the range of business activities which has influenced its approach to workforce inclusion and belonging strategy (see Chapter 5).

What is NGNs approach to collaboration?

The ISG recognise that one of NGN's strengths is its drive to collaborate with partners and continually develop new partnerships to benefit customers, particularly the most vulnerable. In the development of the GD3 proposals we have witnessed the development of more meaningful local strategic partnerships with DNOs, water companies, Local Authorities, and others. Investment by NGN in these partnerships is supporting the creation of joint local strategies such as collaborative PSR strategies, strong and reciprocal support during emergency situations, storms, and shared

learning from regional and national incidents which will be an essential part of GD3 delivery.

VCMA Proposals

The ISG also challenged NGN to demonstrate greater collaboration with other GDNs, to share learning and achieve consistency of approach, where possible, for the benefit of customers, particularly the most vulnerable. The proposed VCMA collaborative projects for GD3 will need to be developed in more detail but appear to the ISG to be focused on areas which will have meaningful outcomes for customers in vulnerable situations.

We had several discussions with NGN about what could sensibly move from VCMA to BAU without losing the targeted support for those in most need. At a deep dive session in August 2024, we heard that Ofgem had established a working group with GDNs and had agreed what should fall within BAU and the types of initiatives that would be allowed under VCMA allowances. NGN enhanced its proposals following more detailed scrutiny by the ISG and we are satisfied that these have been tested with delivery partners and are both deliverable in scale and will meet unmet needs.

We also asked NGN to provide us with the costs associated with BAU support to customers in vulnerable situations. This was confirmed to be £3m.

Voluntary commitments

NGN has made a number of commitments that go above and beyond general standards of performance and these are supported by the ISG having also witnessed evidence of wider customer and stakeholder support. The company has also included shareholder funded initiatives including a Community Partnership Fund. Following review of drafts of the BP by the ISG, the company also removed some bespoke outputs in relation to vulnerability as they were not sufficiently ambitious.

NGN readiness for GD3 and what further insight/engagement/planning is needed?

More engagement will be needed with NGN's delivery partners and social policy advisors to ensure the new VCMA audit arrangements do not present any barriers to smaller community groups and to avoid duplication of services offered by other local agencies.

Establishing what form of evidence is needed to report on how the six core principles are being met is in hand, but the ISG can usefully explore this further with NGN in 2025, along with the development of the Inclusivity and Vulnerability Impact Assessment Tool to be used for all VCMA projects.

NGN can also usefully continue to identify gaps in services that they are best placed to fund and deliver through continuing its engagement with front line service providers and adapt its VCMA projects accordingly.

A particular challenge which originated in deep dive sessions was to ensure that projects are sustainable after NGN funding ceases and that vulnerable customers will continue to be helped within their communities and are not left stranded or in a worse position than before. NGN has responded by changing its application process for delivery partners to include sustainability and community legacy, developed working arrangements with bidders to help them help themselves through improved planning and succession planning, and increasing business development to attract additional funds.

NGN has also developed a more robust governance process and support function for the allocation of funds which has third sector delivery bodies involved in the decision-making and which the ISG observed in action.

Issues for Ofgem to investigate

- Without tailored and practical advice, as well as financial support, it is likely that many NGN customers will be left behind and may make it difficult to transition to Net Zero. It is important that Ofgem support appropriate regulatory mechanisms but also use evidence to assist the Government in determining other financial and funding mechanisms, particularly those that are not regressive.
- The ISG challenged NGN to explore the case for upgrading heating systems to support low-income customers in vulnerable situations towards Net Zero scenarios and this is an area that requires more attention, and a link to Ofgem's current consultation on energy efficiency and vulnerability in ED3.

Chapter 4 - Infrastructure fit for a low-cost transition to Net Zero

Net Zero commitments

What were the key areas of challenge and what impact have they had on BP?

The ISG undertook several reviews of this topic including a number of deep dives, referencing NGN annual environment and sustainability reports alongside several iterations of BP drafting. NGN responded positively to comments and challenges made throughout.

The ISG is satisfied with the progress made in the delivery of the GD2 Environmental Action Plan (EAP) and associated Annual Environmental Reports and Sustainability plans and reports which form a strong basis for the delivery of the proposed plans for GD3.

The Net Zero plan is dominated by the estimated shrinkage and leakage performance across the network, which is founded on industry standard calculations based on length and type of the network. Further work on active monitoring of shrinkage/leakage is paramount for the sector to properly ascertain its true carbon impact. The ISG believe the ongoing research work into automated gas leakage detection deployment in GD3 is a necessity and is a feature of the NGN BP.

The remaining operational Net Zero and Environmental Action Plan targets (resource use and waste, business carbon footprint, biodiversity etc.) are relevant and progressive, albeit with a lower materiality to the leakage performance on the network. However, the ISG believe these are consistent with the aspirations and targets of other similarly sized organisations.

Challenge 14 posed on 8/04/24 was for NGN to provide more clarity in describing the outcomes of any new enhanced environmental and Net Zero targets in the GD3 BP. This was explored in more detail during focused deep dive session discussions, and the ISG is satisfied that greater emphasis and explanation of benefits to customers has been included in Chapter 4 of the BP and the EAP appendix.

Challenge 15 was also posed on 8/04/24 and was raised to ensure that more clarity was provided around proposed shrinkage targets and that they were adequately stretching. The ISG is ultimately satisfied with the level of ambition, and sufficient clarity has been provided in the EAP and BP, but we have stressed the importance of rigorously pursuing these targets throughout GD3.

During deep dive discussions it became clear that Demand Forecasting appeared to have been an overlooked area for innovation funding given that AI could be used to map current and historical weather/extreme events data onto demand profiles, thus creating smart NGN systems to forecast demand based upon trained AI systems. This is an area we encouraged NGN to explore as part of its innovation portfolio and we expect will be addressed in the GFES NIA project that is being delivered in 2025.

Key Area of Challenge	Impact on the plan
Deep Dive review of EAP and Shrinkage Targets	Appendix A6 (EAP) Section 8 – “Our ISG were very supportive of our EAP targets and commitments and the rationale used to derive them, including shrinkage and BCF targets”
Bill payers are willing to pay towards proactively improving nature and wildlife, but other environmental investments, such as increasing the assurance of environmental reporting, must be self-funded.	NGN has agreed to use independent experts to verify their Scope 1 and 2 carbon reporting in the Annual Environmental Report (AER) as 81% of stakeholders have said they expect this. However, this will be at no additional cost to the bill payer (anticipated annual cost £30-50k).
Bill payers are willing to pay towards proactively improving nature and wildlife at NGN's sites, but initial hedgerow planting targets were deemed insufficient	Biodiversity and Land targets increased to “strategically plant 20,000 saplings to create two miles of hedgerows...”, an increase on the originally proposed 1km of planting, following ISG comments in April, 2024
Targets not specified for increasing Electric Vehicle (EV) roll out for non-operational (emergency response) vehicles	Target added to Section 4.5 of the BP and also Appendix A6 EAP section 3.4.3 – “...aiming to purchase 100 EV vans during RIIO-GD3 to deliver carbon savings”
Need for clarity in regularly reporting progress on targets and aimed at the right audience	NGN will continue to produce a summary of the detailed AER each year to make it more stakeholder friendly.
Sustainable Procurement – purchasing c.£1bn of goods and services over the course of GD3 from suppliers meeting sustainability principles in Supplier Code of Conduct. The ISG felt that this could adversely impact some SMEs that did not have the resources to be able to demonstrate compliance with the Code of Conduct	Wording of target amended – “Our code of conduct will be adhered to by all of our key contracted suppliers, directing approx. £1bn in spending to suppliers with environmental and sustainability standards that support ours, while avoiding overburdening SMEs.”
Gas Demand forecasting -what difference would a lower demand make to the BP if NGN accepted the FES24 scenario?	Details of sensitivity analysis of NGN’s peak and annual gas demand forecasts vs FES 2024 scenarios added to section 4.4.
ISG challenged NGN to commit to producing a statement based on the anticipated 7th Carbon Budget targets which supports their output / decarbonisation / disconnection targets	Reference to forthcoming 7th Carbon Budget included in Section 4.2.1 of the BP
NGN will continue to support the DPLA (Digital Platform for Leakage Analytics) that is being led by Cadent with funding from the Strategic Innovation Fund (SIF).	Details of automated gas leakage detection deployment commitments added to section 4.5.2 of the BP.
DPLA study is not due to complete until the end of GD2 and after the business plan for GD3 has been submitted and agreed with the Regulator. As such, NGN will have to assume indicative costs in the business plan, with predicted costing data provided by Cadent.	Full details (scope, costs, risk and opportunities) included in Environmental Action Plan annex.

Are proposals in line with customer priorities and preferences?

Yes. NGN had taken on board comments from several Stakeholders including the ISG, as referenced in section 3.4.2 of the BP, and Insights 4 and 5 which highlighted that informed customers saw the importance of avoiding greenwashing and are "willing to pay towards proactively improving nature and wildlife at NGN's sites, but other environmental investments, such as increasing the assurance of our environmental reporting, must be self-funded."

Following a deep dive into the EAP targets, including shrinkage reduction strategy and the decision making behind it, the ISG expressed our support for NGN's EAP targets and commitments, in particular shrinkage, and we recognise these as being appropriately ambitious.

It is evident from our discussions with NGN and observing numerous engagement events that the People & Planet (Sustainability) Strategy has been developed through wide stakeholder consultation.

Are proposals ambitious?

The ISG is supportive of NGN Environmental Action Plan (EAP) targets and commitments, in particular shrinkage, and recognises them as being appropriately ambitious to tackle NGN most significant environmental impacts.

Issues for Ofgem to investigate

- We suggest that NGN explore, in discussion with Ofgem and other GDNs, how meaningful comparative data might be on leakage.
- Ofgem should also consider issues impacting all GDNs regarding the use of EVs in emergency response situations to ensure 1- and 2-hour response times and find an industry position which protects customers safety.

Managing Uncertainty – Future of Gas Strategy/Whole Systems

The importance in GD3 of reopener budgets and UIOLI allowances is captured in the BP and reflects the fact that such funding sources are likely to become increasingly important as uncertainty about future gas network decommissioning takes hold and new means of funding investigative work is required.

NGN's BP emphasises the critical role of its gas network in the transition to Net Zero, recognising the uncertainties tied to the UK's hydrogen policy, uptake of other heating options and future gas demand. The strategy highlights the importance of whole-systems integration, including cross-sector collaboration with electricity and water networks, to address decarbonisation challenges.

NGN's approach includes leveraging flexible network design, such as sectorisation and network repurposing, while maintaining resilience and exploring opportunities in hydrogen deployment. More defined milestones and measurable outcomes for these plans as they develop will provide greater clarity and transparency and ensure alignment with regional decarbonisation goals, UK policy and stakeholder expectations.

Is NGN demonstrating ambition? What were the key areas of challenge and the impact on the BP?

At this stage we believe the proposals demonstrate the appropriate level of ambition.

NGN has outlined its **Future of Gas Strategy** as a foundational pillar for achieving decarbonisation and energy transition goals. The statement by the Chief Executive and vision suggests this is a major focus for GD3. The strategy could be more explicitly integrated with broader whole-system decarbonisation efforts and cross-sector collaboration, but it sets out NGN's initial approach to developing this important area of work once there is clearer policy certainty.

Key challenges include:

- **Strategic Alignment:** The integration of the Future of Gas Strategy with whole-system plans, including electricity and water sector decarbonisation, needs to be clearly defined within the RESPs.
- **Unclear Milestones:** Specific, measurable milestones for projects are not sufficiently articulated at this stage, making it difficult to see how progress would be tracked and outcomes assessed.
- **Policy Uncertainty:** The delay in national hydrogen policy and the role of gas networks in the future energy system creates risks for long-term planning and investment.

Challenge	Impact on BP
Lack of integration with whole-system planning	Risks misalignment with regional and national decarbonisation targets, reducing strategic coherence. Will be addressed in more detailed planning
Absence of measurable milestones	Reduces accountability and makes it difficult to evaluate progress against objectives – to be added in next phase of project development
Inadequate whole-systems approach	Opportunities to balance hydrogen deployment with electrification and sector-wide integration brought forward into GD2 NIA project for GFES design.

Do proposals meet stakeholder priorities?

Stakeholders expect NGN to take a leadership role in aligning regional and national decarbonisation plans.

Collaboration with other gas networks, electricity providers, and regional authorities is essential to demonstrate a unified approach to achieving net-zero goals. Key priorities include:

- **Cross-Sector collaboration:** Evidence of partnerships with electricity providers, Local Area Energy Plans (LAEP), and Regional Energy Strategic Planners (RESP).
- **Milestone clarity:** A roadmap with clear timelines and deliverables to ensure transparency and stakeholder confidence. This also needs to include risks of not achieving electrification targets.
- **Whole-Systems thinking:** Supporting electrification alongside hydrogen deployment to ensure a balanced and resilient energy transition.

NGN readiness for GD3 and what further insight/engagement/planning is needed?

Establishing and participation in the Future Energy Networks (FEN) group, providing a platform for collaboration and technical expertise.

The sectorisation strategy research project, which will evaluate hydrogen readiness and operational adjustments for decarbonisation.

Investment in digitalisation, including updating asset records and leveraging AI to optimize network management.

We note further planning will need to include:

- Identifying detailed project milestones, risks (including discovery milestones) and outcomes for GD3 to track progress.
- A flexible strategy to adapt to policy changes (including delays in hydrogen policy and other uncertainties) is critical for readiness.
- The development of collaboration aims and objectives, and customer value propositions – with a whole systems focus that links to wider national and regional targets.

Issues for Ofgem to investigate

- How to communicate the impact of uncertainty mechanisms on energy bills with customers
- The role GDNs have in communicating and responding to emerging Government policy changes.
- There would appear to be conflicting information regarding the suitability and cost of electric vehicles to meet the 1 and 2 hour emergency standards. The ISG raised this as an issue for GD2 and this is now something that should be addressed at an industry level.

Chapter 5 Secure and Resilient Supplies

Are the proposals ambitious enough and in line with customer priorities and preferences?

The ISG has retained a strong focus on safety in our scrutiny of current and future performance metrics. The ISG is satisfied that the company's response to HSE requirements and in undertaking its own internal safety reviews are robust and reflect the expectation by customers that safety is a given.

The proposed outputs are in line with HSE requirements and NGN's ambition is to deliver the completion of the Repex programme within the HSE deadline.

The ISG is supportive of the resilience commitments in this chapter and based on previous performance and forward planning we believe these are deliverable, with processes in place to address the challenges highlighted in the BP. The commitments are exhaustive and cover the spectrum of factors from infrastructure to supply chains and the workforce. All factors considered are relevant and shed light on the company's overall 'resilience readiness'.

What were the key areas of challenge and how did they impact the BP?

NGN was able to demonstrate to the ISG that processes are in place for capturing emerging and actual risks rising from extreme weather events and that its emergency response procedures were fit-for-purpose in that respect. The ISG took particular interest in physical security of assets and requested that further insight be included in the plan around how this was being dealt with, especially at more vulnerable, remote sites. This now features in the GD3 submission, and more details should be available of the preventative measures that are in place to mitigate the risk.

The ISG considers the risk-based approach to Networks Asset Management (NARMS) remains appropriate and is clearly laid out, with NARMS still front-and-centre of the strategy and the ISG has had good visibility of the spread of 'investment areas' and the linkage to asset relate risk and resilience investments is clear and appropriate.

We note the importance of Cyber Security, and whilst this is not an area explored in detail with stakeholders, they recognise the importance of investing in cyber security measures and systems. The ISG observed a crisis management

training event which helped to strengthen management response to any cyber incident.

Is the resilience framework fit for purpose?

The ISG challenged NGN to demonstrate how it was addressing resilience across all operations and activities. The resilience framework provides that overview and structure that offers transparency in monitoring resilience and demonstrating how to adapt/mitigate risks. It is exhaustive and covers all relevant factors. The mitigation measures to ensure resilience is maintained are clear and fulsome.

NGN Readiness for GD3 and what further insight/engagement/planning is needed?

The ISG have monitored NGN's track record of performance, and this suggests a strong degree of readiness for GD3. The 'escapes and unplanned interruptions' responses are impressive, exceeding the target expected and the ISG has sought to ensure that NGN is committed to maintaining these.

Issues for Ofgem to investigate

- See comments in Chapter 6 around costs.

Climate Resilience

Are proposals appropriate and ambitious?

The ISG is satisfied that these proposals are appropriate, and we have seen evidence that action around climate resilience is integrated into BAU activities with measures embedded into routine operations like Repex and planning. Risk Assessment is undertaken by NGN using MET Office data and Newcastle University analysis to update climate risk assessments every three years. Whilst this is aligned with national policy, clear guidance from Ofgem on which climate scenarios to use will ensure everyone is working to the same risks.

The importance of predictive analytics around the impact on physical infrastructure of rising sea levels, flooding, severe storm events in general, is well captured and relevant.

Lessons from past events, such as Storm Arwen, have improved NGN's preparedness and emergency response plans. We have reviewed NGN's regular climate adaptation reports and annual financial disclosures which are available to their stakeholders, and we are satisfied there is transparency around these investments. The ISG believe that climate risks have not significantly impacted NGN asset lifespans or accelerated depreciation requirements. The risks are low to the gas network but still well understood.

Do proposals align with customer priorities?

Stakeholders have been asked for their views and emphasised their preference for proactive risk management while ensuring no significant bill increases.

What were the key areas of challenge and how did they impact the BP?

Risk Management was a key area of enquiry by the ISG and we have explored how NGN addresses risks like floods, wildfires, and ground movement with targeted infrastructure investments.

The ISG reviewed the River Allen Diversion EJP, as this is a significant climate resilience project planned for GD3. We are confident that NGN has adequately explored and confirmed the best delivery methodology with stakeholders and specialist consultants, and this will help the company to understand how, from a perspective of safety, quality, duration and cost, environmental and safety regulations could impact this and similar projects if these requirements need to be applied on a more regular basis.

Workforce and Supply Chain Resilience

The ISG held two deep dive sessions in the second half of 2024 - one on Equality Diversity and Inclusion and one on the specific proposals in the second draft of the BP. We did not receive any information on the costs in relation to the commitments listed in the deep dive presented to us in October, as matters were still work in progress, so we did not scrutinise these. The workforce and supply chain strategy underwent different iterations following internal review as well as challenges by the ISG.

NGN made strides in GD1 and GD2 in both workforce (internal employees) and its supply chain (in particular the DSP contractors) which gave them frontier status due to the efficiencies of the contracting arrangements, resulting in savings for consumers on their bills and reducing the average age of engineers to provide a workforce for the future.

Leading up to preparation of the BP for GD3, the Director of HR left the company and was replaced by a new director. This, and a combination of factors relating to union matters, impacted the timeliness and way in which this section of the BP and the accompanying strategy were developed, and how the ISG was engaged on both.

For GD3 the key points to note are that NGN's overall Resilience Framework has been in place for a number of years. NGN understand that its workforce and supply chain are central to ensuring GD3 ambitions are delivered. Therefore, ambition on delivery will need to be matched by ambition and innovation on maintaining workforce resilience.

What were the key areas of challenge and how did they impact the BP?

Equality, Diversity and Equity - Inclusion and Belonging

NGN's focus on inclusion and belonging is a more recent feature of GD2. This is an area where NGN has agreed that progress has been made but it is slow, and targets are not as ambitious as we would have liked to see. However, members of the ISG do recognise this is not just a matter for NGN, who has made more effort than some, but it is a sector-wide issue.

Following challenge by the ISG youth members, the BP now provides a commitment to attracting more new talent through developing the apprenticeship programme (60 new GD3 apprenticeships) and launching a graduate programme to

strengthen resilience and meet skills shortages which the whole ISG is supportive of.

We reviewed NGN's internal processes to address EDI and commend NGN for its Colleague Communities initiative which has resulted in a number of improvements to employee welfare and EDI.

We note the commitment to a 40% target for representation of women in senior positions but are surprised the target hasn't already been met by 2024.

The ISG asked NGN to identify the barriers to improvement in EDI – and several factors were considered including recruitment procedures, types of roles and leadership. This is still work in progress.

The company has repeatedly said it wishes to attract more women into the operational workforce and developed a long-term plan which the ISG did not feel was sufficiently ambitious to bring young women into the company quickly enough. NGN explained the challenges but more needs to be done to understand the blockers (internal and external) to young women applying for these roles. We also stressed that NGN should encourage more young women into the company as part of its enhanced apprenticeship scheme and Green Academy initiative.

On supply side the ISG encouraged NGN to think about using the supplier code of conduct more innovatively to help drive EDI in the contractor community.

A key aspect to the 'resilience framework' is the NGN DSP model. The ISG attended a site in the Greater Leeds area in September 2024 to see remedial works in action, at which time was taken to talk to the DSP site operatives on their experiences of working with NGN as a client. All discussions pointed to very satisfied contractors and mutually respectful relationships in place between NGN and its DSP suppliers. The ISG also attended NGN's biannual supply chain and DSP event where the GD3 BP was explained to around 800 of the DSP community. NGN explained the impact the BP would have on contractors and the supply chain. There was a strong focus at the event on safety and support for vulnerable customers, and an explanation of the incentive payment for completion of the Repex programme in 2032.

There is a real concern that other GDNs and utilities are casting their eyes in the direction of the labour pool and associated DSP model that NGN has created and are able to offer higher day rates. This is something that Ofgem needs to be cognisant of and the potential pass through of these costs to customers if there is insufficient skilled labour available for the projected massive rise in utility infrastructure programmes.

Challenge	Impact on BP
How do the commitments lead to measurable outcomes for customers and how they link back to the overall vision for the business?	These are set out more clearly in the reworked Workforce Strategy
Is a mechanism in place to ensure the resilience framework is kept up to date and if it does change how does that trickle down into the strategies?	NGN confirmed in a deep dive session that the framework is reviewed annually by the senior management team
Commitments in the strategy could be presented in the format of: step changes/ commitments, enablers, embedding BAU and what the customer outcomes are.	Many of the factors were included but presented differently. Customer outcomes are not always clearly defined but much more attention to benefits and outcomes
Is it possible to show the link, at all levels, especially at a senior level how reward is linked to performance that is directly linked to vision and customer outcomes? (An Ofgem ask at GD2.)	NGN confirmed that pay is linked to performance and BP delivery targets across the company
DSP/Supply Chain: The ISG asked NGN to explore the possibility of creating a cross utility regional group across region, however it was agreed that would be very challenging, so a market study was suggested -conducted by an external party -to review the challenge of not driving up costs for customer via competition across the region (demonstrate that the DSP model remains fit for purpose).	NGN do not see the value in undertaking a market study and have expressed confidence that the Repex incentive for DSP operatives is sufficient to ensure they have the skills and workforce in place to meet HSE requirements and costs are included in the BP. This will require careful monitoring and management

Are proposals appropriate and ambitious?

The ISG is satisfied that the proposals meet the requirements for delivery of the BP however we believe that NGN could go further on EDI in the workforce if incentives were in place to drive this forward.

Following deep dives NGN reviewed the inclusion commitments making them more ambitious. A very small improvement in EDI was considered in drafting of the BP but the ISG did not feel it was ambitious and asked for it to be removed and further consideration given to a meaningful target.

Do proposals align with customer priorities?

An affordable, safe and reliable gas supply remains the top requirement for customers. The BP provides confidence that NGN can deliver a highly reliable supply, respond quickly to any gas escapes.

Affordability is subjective, but NGN is also committing to provide value for money through investing efficiently where there is a mandatory requirement or justified through NARMS assessments.

NGN Readiness for GD3 and what further insight/engagement/planning is needed?

NGN is seeking to improve the baseline data it holds about employees and the DSP contractor workforce. This will help set meaningful targets for improvement.

NGN's Colleague Communities are now well established and able to bring forward proposals that will address Inclusion and Belonging in the workplace.

NGN does not currently have in-house expertise in EDI but has committed to doing so in the GD3 BP which we believe can assist them both internally with suppliers on these matters.

Issues for Ofgem to investigate

One of our main concerns related to the level of ambition for equity, diversity, and inclusion. This is an area where all network companies have struggled to deliver a faster pace of change. EDI is an area where shareholder interests may not be aligned with that of stakeholders (who are supportive of the workforce reflecting the wider community).

We suggest that Ofgem considers using regulatory incentive mechanisms to improve EDI. In the run up to GD2, this matter was seen as input-based regulation, and discussions between the industry, CEGs and Ofgem concluded in not setting mandated targets.

We encourage Ofgem to revisit those discussions noting the slow speed of progress, to consider whether it is now appropriate to introduce an incentive – like the stakeholder engagement incentive of RIIO-GD1, which was introduced to change the culture in the sector. It faced a similar backlash then, but that incentive has been instrumental in driving a step change in the industry on stakeholder engagement and the ISG believe a similar approach could bear fruit in relation to EDI. There are also lessons to be learnt from outside the energy sector in this area, which we believe could raise the bar in terms of expectations and performance.

Chapter 6 System Efficiency and Long-Term Value for Money

The NGN/ISG engagement has been both constructive and productive on the issue of costs and value for money for customers. The transparency and depth of information provided by the NGN team has been impressive and there have been a number of sessions held to challenge and scrutinise the costs associated with the main elements of the BP.

Despite this, it is important to note that the ISG is restricted in some areas, for example financial assumptions and analysis, but this restriction is because of the ISG's defined scope which is set out by Ofgem, not NGN. For example, debt/equity ratios (so important in the utilities sector as we have recently seen in water) and borrowing rates/cost of cash will all make a substantial contribution to consumer costs over the BP period.

Additionally, it is out of scope for the ISG to perform a detailed risk management assessment in some areas. For example, the contract structures or pricing methodology for the direct contractor model have not been shared (again, out of scope) so these have not been assessed, but these are particularly key to NGN's efficient operations and to consumer costs.

So, risks such as NGN's level of exposure to contractor price variations (DSP) or any mitigation arrangements (fixed price, indexed, Cap and Collar etc.) have not been visible to us and these should instead be assessed by Ofgem.

However, this part of the GD3 BP consumed a lot of ISG time, particularly in the last 6 months leading up to the BP submission, in challenging the factors making up the Totex figures and in particular the Repex expenditure mix vis-à-vis pipe material and diameter. This led to the granularity included in the tables presented in the final submission. In particular, the company was encouraged to improve clarity between HSE mandated work and that generated through NARMS, with the former being deemed essential, as well as locking in a component of cost over which NGN has little control. This was also explored in face-to-face discussions during a site visit with Ofgem at which one of the main cost increase drivers – the move from trenchless technology to open cut in certain urban areas – was witnessed and reasons were explained. In turn, this then explained part of the rise in costs presented to the ISG.

With the digital theme running through the GD3 submission, the ISG were able to see first-hand digitisation in action in that hand-held devices, GIS, in-situ data logging, real-time

reporting and alarm management are all now playing a key role in the roll-out of NGN's strategic asset management plans.

What were the key areas of challenge and how did they impact the BP?

Scrutiny by the ISG raised several constructive challenges relating to cost effectiveness presented in draft iterations of NGN's BP. These challenges have resulted in a significant cost saving to customers of ~£107m.

Savings have been demonstrated across all costs items as follows:

- Capex - £28m
- Opex - £5m
- Repex - £74m

Whilst these savings are significant this is against a backdrop of an overall Totex increase of 21% compared to GD2.

Are these costs in line with customer preferences?

77% of informed customers expressed the view that the costs presented were acceptable. Clearly 23% did not find them so, and many of these will likely struggle to find the resources to meet any increase in household bills given the continued cost of living crisis impacting most heavily on low-income households.

Some of the VCMA and voluntary initiatives to help customers in vulnerable situations will help mitigate the impact on some of these households but affordability of energy will continue to be an issue for Ofgem and the energy sector during the transition to Net Zero.

The importance of having accurate cost data (6.2.1) is highlighted and this is where we believe NGN has demonstrated transparency which allows for proper scrutiny.

Repex

For Repex, it is positive that NGN has already completed a significant amount of mandatory mains replacement work in previous price control periods, and this has contributed to what appears to be a lower overall Repex cost relative to other networks for GD3.

There is still a big uplift in Repex costs for the coming period however due to inflationary pressure and some remaining complex work. Whilst it is difficult for the ISG to challenge mandatory work we asked NGN to consider, amongst other things the cost benefit of some areas which may be prime for the electrification of heat rather than continued gas use. This could in some cases reduce costs for consumers if spend on soon to be redundant networks could be avoided. We suggest that Ofgem encourages this analysis under the Strategic Area Planning programme.

The ISG has been able to be more impactful in reducing the cost of non-mandatory Repex spend as NGN's business plan has evolved. Tier2b and Tier3 costs have been reduced due to challenges to the Engineering Justification Plans (EJPs) and this has contributed to the cost savings highlighted above, combined with other savings related to lowered level of steel mains replacement.

More detailed analysis by the ISG concludes:

- Repex Table 6.2 is very clear. The granularity of the increase in expenditure from £126.15m to £170.01m p.a. is clearly presented against the relevant cost categories/activities.
- the unit cost increases to achieve the target lengths are clearly depicted in Table 6.2.
- The NARMS and HSE-driven replacement strategy is very clearly laid out. The operational performance commentary supports the overall Repex story. The focus on efficiencies is by reference to the DSP engagement model again.
- The schematics on cost drivers are very informative and relay information clearly, as does the one covering 'physical engineering complexity' which is something often overlooked.
- The diameter mix and increased ductile iron challenges are clearly presented and support the increased activity in these asset classes.
- The mandatory Tier 1 story is clear as are the parametric changes from GD2 to GD3. The supporting Appendix A22 aids understanding.
- The stories around Tier 2b, Tier 3 and Tier 4 plus 2" Steel are

also very clear and detailed.

- Zero scoring prerogatives are explained fully. All other categories of Repex (stubs, diversions, other services, risers) are fully explained which means a full picture is continuously presented, fully supported by appendices.

Capex

Although NGN's original Capex projections have been reduced over the evolution of the BP there is still a very significant spend on LTS Pipelines, Storage & Entry investments (circa£140m).

More detailed analysis by the ISG concludes:

- Capex tables are very clear and perform the same information sharing role as those for Repex.
- Appendix A18 is very supportive of the statements made, with the NARM reliance once again reaffirmed.
- Cross referencing the A21 and A7 appendices points to a joined-up system underpinning Capex investment decision making.
- The LTS insights are important now that gas holder decommissioning is complete, and line-packing is the principal means of storing gas in networks.
- Asset classes in A22.f show where expenditure is based on both drivers and justifying factors. At this point some reference to 'physical security' would have been of use albeit that it appears in Table 6.17 and the text that follows. The importance of governors as an asset class is highlighted in 6.16 but the need for vigilance is rightly expressed. A reduced governor programme from that originally presented to the ISG has reduced projected costs for GD3.
- The specifics of other Capex categories are explained well and emphasise the need for non-infrastructure expenditure, especially around IT systems as NGN accelerates the use of digitisation across the business.

Issues for Ofgem to investigate

Whilst much of this spend is compliance driven (MCPD etc.) there are a number of projects (ref Table A22 P64) which are not compliance related, with long and costly payback times. These seem difficult to justify given that the NARMS is marginal at best and Ofgem should consider whether these provide value for money in GD3 and the consequences of postponing investment in them (e.g. A22 F&G).

Opex

A 14% increase in Opex relative to GD2 is high and is partly driven by the cost of staff "fatigue" which has necessitated changed working patterns for shift workers. This is partially offset by a reduction in gas holder demolition costs relative to GD2 as this work is largely complete. The ISG scrutinised the costs for additional workforce to address new HSE working rules and these do appear to meet the required additional resourcing and are not unreasonable.

More detailed scrutiny by the ISG concludes:

- The maintenance workload increase is significant and is again a function of stronger HSE policies which need to be funded.
- It is refreshing to see NGN investing in its future workforce through training and apprenticeships. This 'grow your own' strategy is a solid, long-term one in terms of futureproofing the organisation.
- Efficiency and delivery efforts have been, and will continue to be, a key focus. Labour pool changes and T's&C's redesign are unlikely to be repeatable during GD3 so should be seen in that context.
- The impact on Opex of digitisation across the company's operations is very clear from the volume of digital-related activity covered under Opex. The spread of activities is significant and represents a shift in the Opex cost base as a result of smart (digital) asset management.

What were the key areas of challenge and how did they impact the BP?

When the draft costs were presented to us, the ISG asked NGN to model the impact of 10% reduction in costs on customers.

This was discussed in a deep dive session. NGN told us that there would be a £4.50 a year reduction in customer bills if 10% was removed from Totex based on the initial costs submitted to Ofgem. NGN did not model 10% reductions against the different cost headings as this would have incurred a significant amount of time. They did however state that this level of reduction in revenue would impact on service standards that customers received, due mostly to a reduction in headcount of service delivery operatives. It was not in line with what customers had said they wanted and was therefore discounted as something the company felt was in customers interests.

However, due to further challenges by the ISG relating to costs, NGN's final submission resulted in circa £107m reduction in costs, with no diminution in customer service standards. This was, we understand mainly due to the following:

- Removed RPE and inflation double count.
- Reduced Governor Programme due to deliverability concerns
- Reduction in Opex relating to the lower Capex costs.

Other improvements made to Chapter 6 in the final BP were as a result of NGN refining its narrative on Robust and Efficient Costs and included sections on UIOLI and growth, as well as adding links to/

from the Data and Digitalisation section to improve cohesion with the rest of the plan.

NGN confirmed that it is taking a higher risk around costs than in earlier versions of the BP, but we note that there is an opportunity to raise reopeners if the work is indeed more complex and expensive under Repex than envisaged.

Do proposals align with customer priorities?

Customer feedback has shown that customers want costs as low as possible but accept that to meet high safety standards and provide reliable supplies they may need to pay a little more.

NGN Readiness for GD3 and what further insight/engagement/planning is needed?

None that we can specifically recommend but there is obviously a significant amount of work to be done by Ofgem and NGN to investigate the detailed costs before draft determination in June.

Issues for Ofgem to investigate

Ofgem should consider the specific impacts on customers and risks associated with any reduction in revenue against specific areas of the BP and ensure that customer preferences are considered alongside the economic analysis.

Uncertainty Mechanisms

Use it Or Lose It (UIOLI) Mechanism – BM

The ISG supports NGN's continued, and increased, use of UIOLI allowances with £12.5 million planned for projects such as hydrogen blending, network sectorisation, and whole energy systems modelling.

What were the key areas of challenge and how did they impact the BP?

While these initiatives align with strategic goals, we have not at this stage seen a breakdown of project costs, timelines, and anticipated outcomes that would enable the ISG and other stakeholders to understand tangible benefits and track delivery against commitments.

Do proposals align with customer priorities?

The proposed UIOLI projects are intended to support regional decarbonisation goals under the RESP framework. Although NGN emphasises alignment with these objectives, the ISG has not observed how the regional priorities were identified, tested and agreed with stakeholders, ranked, and integrated into project planning. Transparent reporting on project progress, financial expenditure, and delivery milestones is essential for building stakeholder confidence and this should be part of the next phase of planning for NGN.

NGN readiness for GD3 and what further insight/engagement/planning is needed?

NGN outlines a flexible yet structured governance framework, with annual reporting aligned to RESP goals. However, clearer success metrics and more robust auditing processes will be required, including clarity on the oversight and role of the regional planning body in relevant UIOLI projects.

Previous UIOLI projects, such as the Redcar Hydrogen Community trial and East Coast Hydrogen, have provided valuable insights into community engagement and acceptability of major energy transition projects.

Stakeholder engagement on the proposals will be needed and NGN should demonstrate how this influences decision making and shapes the projects, with annual reports offering accessible insights into project progress and financial transparency.

Issues for Ofgem to investigate

Stakeholders could benefit from more transparent reporting on UIOLI project progress, spending and outcomes (including lessons learnt for projects that don't achieve all initial outcomes/targets) Ofgem should consider stipulating this for UIOLI projects for all network companies.

A formal 'lessons learnt' assessment of GD2 projects would be helpful detailing outcomes, value for money, and key lessons learned. This review should highlight successes and failures, identify areas for improvement, best practices, and outline how these lessons are being applied to GD3.

There should be clarity on whether the new RESP governance arrangements might oversee the relevant use of UIOLI allowances to assess whether UIOLI projects align with both regional and national energy strategies.

The ISG decided that data and digitalisation in NGN's BP for GD3 would be one of its key areas of focus. Our approach was to establish a new sub-group of colleagues with relevant skills to scrutinise the plan which would have direct contact with the staff leading the work in the business in this area. Three deep dives were organised over 12 months focused on GD3. They did not include scrutiny of cyber resilience and IT strategies.

In addition to our introductory remarks about engagement we note that for this topic NGN was also transparent about where they are following Ofgem's lead, rather than driving matters. Overall, the timeliness of information shared was lacking, restricting our scope of influence as there was uncertainty from Ofgem on what the companies needed to provide.

The ISG and its sub-group saw three iterations of this area of the BP. The first iteration, which was received in July 2024 essentially repeated what was in the GD2 DSAP for 2024-26, which both NGN and the ISG felt was not appropriate and further work was undertaken with a forward look into GD3. Whilst our time to scrutinise this area of the BP was then more limited, we were pleased that NGN chose to refresh its D&D strategy and action plan, which was not a mandated requirement. It has given us greater insight into what is being proposed, although we recognise this is a fast-moving area and the strategy and action plan will need to be updated in year 1 of GD3.

We also note that Ofgem expect to see a significant investment in digitalisation through GD3 as the whole energy network sector has moved quickly since the start of RIIO-2. Ofgem has seen a lot of appetite for investment in the RIIO-2 re-opener windows.

It was clear that NGN has been on an internal journey to digitalise its operations since GD1 as it saw benefits of doing so operationally (for example their continued investment to date in digital infrastructure SAP S/4 HANA). It has been ambitious and very much driven this agenda, which has contributed to its frontier GDN status. It is not fully clear to the ISG what the direct impact of this historic effort has specifically been on NGN's efficiency and productivity assumptions for GD3 (see reference in the detail below on comparisons), nor how its consumers and customers have benefitted in GD2. However, NGN has shared with us how real-time data is being used by its engineers to reduce costs and improve customer service into GD3.

As the CEG for GD2 we had a deep dive on NGN's Data and Digitalisation (D&D) strategy and action plan for 2024-26

to set the scene for our challenge and scrutiny of the GD3 business plan. It was clear that NGN's focus on digitalisation with external stakeholders/overall energy market was guided by Ofgem's effort to drive the energy sector to do so. It seems that this approach is continuing into GD3 – i.e. that the development of D&D for internal operations is more NGN driven but with Ofgem drivers informing its approach to D&D for external stakeholders.

Stakeholder engagement through the different versions of the plan

For its internally focussed initiatives, NGN conducted extensive engagement within the company as part of GD1 initiatives. NGN confirmed the following engagement to influence GD2 and GD3 plans:

- Create Clarity was engaged in August 2024 to conduct personas research covering both internal and external stakeholders. Although these are designed to revolve around data use, NGN believe that they will be useful for other IT development, and potentially for non-IT related stakeholder engagement.
- The decision to produce a new DSAP in October, following a challenge by the ISG, meant there was little time to consult on content.
- The ISG met with Create Clarity in November to understand the approach they had taken to their personas research, on which we provided initial feedback. We were not however involved in how that fed into the BP or DSAP eventually submitted to Ofgem.
- Overall, stakeholder engagement in this area is still on a journey of development. It is a new and emerging area of engagement with customers although we note engagement through industry working groups has been undertaken including with NESO and research commissioned to establish data user personas to help improve access to relevant data.

What were the key areas of challenge and how did they impact the BP?

The second iteration of the plan was shared with us in September 2024. The table below summarises the challenges we gave in September and how these were addressed in the third iteration of the BP.

Area of challenge	BP Impact
Demonstrate senior management support and link to NGN vision	CEO and CIO quotes added to Digitalisation Strategy. Digitalisation vision now references key points of the overall NGN vision
Show how NGN has embedded D&D in the business plan for GD3. This is not clear through the use of a separate section.	The separate section is an Ofgem requirement; however, D&D is now referenced in multiple areas of the business plan e.g. pg75, 27, 22, 9
Include a mindmap to emphasise the exciting work that has taken place.	Infographic added to the Digitalisation Strategy
Needs a definition of Data & Digitalisation	Definition added to the Digitalisation Strategy
More examples of work that NGN has done to drive forward digitalisation work that benefits others	Case studies added to Digitalisation Strategy
Highlight compliance with Ofgem requirements	Specific Ofgem headings used in Plan and Strategy, including for SMART objectives. Where applicable specific legislation/obligation is referenced. Optioneering explained in Business Plan
Show how NGN is ensuring that the Digitalisation vision remains relevant to consumers	Results of latest Stakeholder acceptability event (very positive net approval score of 76% for the Digitalisation Strategy)
Add more about how stakeholder engagement has influenced the strategy, and how it continues to do so	New section added to the strategy on personas and the work of Create Clarity. Strategy also cites specific stakeholder feedback where appropriate
Add impacts/benefits to consumers to the list of projects	Benefits (almost entirely indirect) added to the SMART objectives in the Business Plan
Expand 'story so far' to include stakeholder engagement (even if just internal)	Digitalisation Strategy expanded to include SE for RIIO1 & 2
Make Outputs SMART	Business Plan amended to have explicit SMART objectives, linked to the relevant section of the Digitalisation Strategy for context.
Add more about challenges (culture etc) and how they have been addressed	Culture challenges added to Digitalisation Strategy, also challenges around AI rollout
Add productivity targets to be realised by the use of AI	This is still a gap, though would not be included in the Digitalisation Strategy as it should be a business output supported by digitalisation, not driven by it (see below section on AI)
Clarify work done for Digitally Excluded	Added to Digitalisation Strategy, including explicit stakeholder feedback, case studies and use of Inclusivity Framework (mirrored in Chapter 3)
The narrative could be further improved to show customer and company benefits.	Customer Service outcomes included
Costs were not included in the BP. NGN explained that it was not possible to benchmark against GD2 (not a requirement to breakdown costs in GD2) but costs for IT and Data and Digitalisation for GD3 overall looked very similar to GD2 and around £9.5m for D&D of the £29m budget (CBA was not required by Ofgem therefore some of the information ISG were seeking has not been provided). The level of spend was also justified against NGN starting its D&D journey back in GD1. The ISG sought reassurance there is no double counting with other sections of the plan, especially innovation.	No detailed cost breakdown provided (not required by Ofgem)

A challenge raised for NGN to show the risks to customers/ the business of not doing the work as set out. Where are the risks and who is facing them (shareholders/customers?)	Milestones and timescales set out to minimise risk of non-delivery
NGN still needs to own the vision instead of this being "Ofgem's vision of what D and D can do for stakeholders/ the energy market."	Clearer vision and ambition set out in the BP
Any skills gap in D&D need to be identified as part of workforce resilience strategy to ensure delivery.	Workforce strategy cross referenced and staff training included in D and D strategy
NGN need to ensure D&D is truly embedded in its business and therefore in collaboration with wider business, the company needs to think about the culture change that is needed to enable this.	Range of projects included across all areas of the business and outcome areas

Use of Artificial Intelligence

Separate to the scrutiny we undertook on the D&D strategy, the ISG have considered the use of AI in operational settings.

NGN's approach to AI and Machine Learning (ML) demonstrates a forward-thinking strategy with clear alignment to efficiency, resilience, and customer-focused outcomes.

Our scrutiny focussed on the integration of AI in network planning, asset management, and predictive maintenance, particularly in optimising risk assessments and improving long-term reliability to increase efficiency and reduce unplanned maintenance and 'emergency works'.

We welcome the commitment to AI-driven automation for routine tasks, including permits to work, job instruction etc. targets operational efficiency gains. Staff training in Python and digital skills supports long-term capability building.

NGN's intention to develop in-house AI capabilities is commendable, reducing reliance on external expertise and ensuring sustained delivery. Enhancements to customer data management through improved CRM and ERP integration and the use of SAP Datasphere and MS Dataverse for AI-driven data governance further demonstrate alignment with modern digital practices. Cybersecurity measures leveraging AI for threat detection and mitigation add an additional layer of resilience protecting NGN and customer data, while real-time IoT data collection enhances decision-making responsiveness.

The inclusion of Artificial Intelligence Impact Assessments (AIIA) for every new AI deployment ensures responsible implementation aligned with ethical and regulatory standards but NGN needs to ensure it doesn't slow the use of beneficial tools.

Issues for Ofgem to investigate

- The ISG did not view the business case for the proposed D&D initiatives. These may become more apparent as the plans are further developed but Ofgem should require companies to articulate the benefits of this investment not just to NGN but for its customers and wider stakeholders.
- How the company plans to drive the agenda in relation to external stakeholders' needs and outcomes and ensure user needs are properly considered.

Chapter 7 Impact on Customer Bills

Do customers understand the impact of the BP and do they feel they are getting value for money?

The ISG challenged NGN to strengthen its narrative around value for money, focusing not just on the short-term bill impact but longer-term benefits, and avoided costs due to efficiency improvements, alongside the enhanced customer service offerings. The longer-term impacts were presented against customer priorities regarding safety and security. But the highest costs in the BP remain the HSE mandated Repex costs, over which customers have no influence.

We also requested that NGN provide more detailed information to customers on how its portion of the energy bill is comprised and where costs are allocated. We felt that customers would be able to make more informed decisions if they had a clearer picture of where their money was being spent. NGN tested this out with the CP, but they decided that more detailed information was not necessarily helpful in understanding value for money and could add to confusion.

However, a waterfall diagramme showing how the gas distribution bill was comprised was shared at a stakeholder workshop as part of the BP acceptability testing survey. The ISG recommended that NGN provide a more granular breakdown of bill components and the waterfall diagramme included LDZ and exit charges, policy changes and investment-related costs.

There was limited exploration of the acceptability of individual bill components, including accelerated depreciation and the cost of debt allowances, but supporting information was provided to the workshop participants to help them understand what each component referred to.

Some stakeholders had expected the NGN investment increases to result in higher bills in the short term - more than the £5 presented - and 80% of the participants expressed acceptance of NGN's proposals with an understanding of what it would mean for their energy bill.

Is NGNs proposed finance methodology (extending asset life) in line with current and future customer preferences?

NGN has sought to address customers concerns (strongly expressed throughout the engagement programme over recent years) regarding affordability of energy bills by proposing a longer period for asset depreciation than that proposed by Ofgem.

This has been balanced by considering the views of future customers who have a preference for accelerating pathways to Net Zero.

More informed customers that have taken part in CP discussions about how the proposals might impact bills were, for the most part, supportive of the increase in costs due to NGN's investment plans but there was little discussion with them about the methodology behind accelerated depreciation costs.

NGN has described to the ISG how it has sought to reduce the increase of Ofgem's proposed accelerated depreciation charges by £6 by extending the asset life by 5 years compared with Ofgem's proposed methodology as a means of addressing short term bill impacts.

What were the key areas of challenge and how did they impact the BP?

We and customers challenged NGN to keep bills as low as possible. Without further economic analysis which is outside the scope of our work it is not possible to agree or disagree with NGN's proposed alternative financial package. We suggest that Ofgem undertake further work to help ISGs and customers understand the longer-term impacts of decommissioning the gas network and the impact of accelerating depreciation of assets at this time for both current and future customers up to 2050.

From a customer perspective the increase in accelerated depreciation might appear to just benefit the companies – getting their return on investment at an earlier date. They need to understand that this is to meet the Net Zero target and is not a mechanism designed to provide the companies with more revenue. An open and transparent public debate is required.

Do proposals align with customer priorities?

80% of NGN customers consulted on the bill impact offered their support. It must be noted that the numbers were not statistically representative of the wider customer base, but the ISG supported the methodology used to gain informed insights into the acceptability of the bill impact. But there was no detailed discussion or explanation of the longer-term impacts of this proposal.

NGN Readiness for GD3 and what further insight/engagement/planning is needed?

The ISG propose that NGN continue to discuss with its customer and stakeholder base their appetite for shorter asset lives. These insights should help to inform Ofgem's decision making.

Issues for Ofgem to investigate

- NGN's BP submission for GD2 was modelled to result in a bill impact of £139 a year. Following Ofgem's final determination, and other factors during GD2 this is currently £170. If Ofgem decisions fundamentally change the bill impact proposed by the company there should be some joint explanation by NGN and Ofgem as to the reason for this, and updates provided on what other factors are at play – e.g. inflation and reopeners. This will become increasingly important as customers are asked to make fundamental decisions about how they participate in the transition to Net Zero.
- Ofgem should encourage public debate around the long-term financial and bill impacts of accelerated depreciation and cost debt allowances to ensure alignment with customer interests up to 2050 showing how bills might change through future price control periods under different scenarios.