

# Call for input

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## **Independent Gas Transporters' Relative Price Control – Call for Input**

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## 1. Introduction

### The role of Ofgem

- 1.1 Ofgem is Great Britain's independent energy regulator. Our principal objective, set out in law, is to protect the interests of existing and future gas and electricity consumers, including their interests in net zero targets being met.
- 1.2 Ofgem's economic regulation of gas conveyed by pipe in GB extends to transmission, distribution and independent gas networks. Regulation of gas networks is achieved through legislation, statutory instruments, and industry codes. All gas transporters must carry a relevant gas transporter licence, and gas transporter licences impose certain regulatory and financial conditions on these entities with the objective of ensuring:
  - a. the efficient and economic operation of the pipeline system;
  - b. the promotion of effective competition and non-discriminatory access;
  - c. the meeting of domestic customer supply security standards; and
  - d. compliance with relevant EU requirements.
- 1.3 In accordance with regulatory best-practice, Ofgem reviews licence conditions from time to time to ensure they remain fit for purpose, protect the interests of consumers, including their interests in net zero targets being met, and have regard to the desirability of promoting economic growth.

### This Call for Input

- 1.4 The Relative Price Control (RPC) is a licence condition that applies specifically to transportation charges for Independent Gas Transporters (IGTs).
- 1.5 In this Call for Input we<sup>1</sup> outline recent developments that may impact the continued suitability of the RPC. We also signal our current intention to conduct a review of the RPC framework and invite views and inputs from stakeholders on the scope, focus and conduct of a potential review of the IGT RPC. We set out specific questions at the end of this document and are seeking written responses to these questions by 25 March 2025. Responses should be sent to [Gas.Systems@Ofgem.gov.uk](mailto:Gas.Systems@Ofgem.gov.uk).

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<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document to refer to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

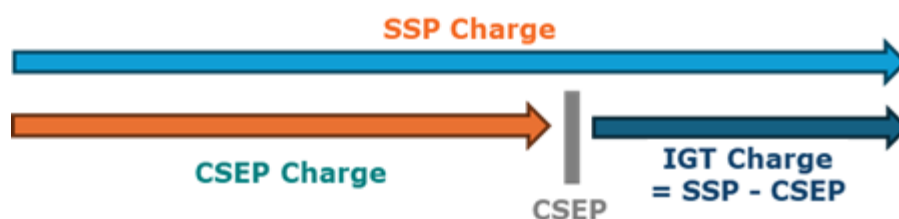
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## Background of Relative Price Control

- 1.6 IGTs are licensed gas transporters that operate independently from Gas Distribution Networks (GDNs). While the GDNs are regional monopolies, the IGTs offer competition in the 'last mile' of gas transportation, competing on network development costs and delivering operational and maintenance efficiencies.
- 1.7 Recognising that the IGTs are not natural monopolies, their charges and revenues are not subject to the full RIIO price control<sup>2</sup> by which GDNs are regulated. Instead, since 2004, IGT transportation charges have been regulated by the RPC framework. The framework was intended to ensure that the operation of the GB gas system remained efficient and economical, and to guarantee that consumers would not be worse off because of the introduction of competition by limiting IGT transportation charges to levels broadly consistent with the equivalent charges of GDNs.
- 1.8 Special Condition 1 (*Charging of Gas Shippers – Relative Price Control*) of the IGTs' licences establishes the RPC framework, setting out the arrangements for determining the gas transportation charges that can be levied on relevant premises. Specifically, the RPC requires IGTs to set their charges in accordance with the following methodology:
- 1.9 **Entry charge:** A property's RPC entry charge equals the local GDN's Single Supply Point (SSP) charge minus the Connected System Exit Point (CSEP) charge. The SSP charge is the GDN's 'all the way charge' which reflects the cost of transporting gas to an individual property. The CSEP charge is the GDN's charge to transport gas to the CSEP (where the IGT network is connected to the GDN) which reflects the cost of transporting gas to the IGT site boundary. IGTs are required to set charges based on the difference between these two charges which reflect the costs incurred by them in operating and maintaining their network.

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<sup>2</sup> RIIO (Revenues = Incentives + Innovation + Outputs) is our approach to ensuring that the monopoly companies that run our gas and electricity networks have enough revenue to run and invest in a network that delivers efficiently what customers value. For details of the current RIIO framework, please refer to <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/network-price-controls-2021-2028-riio-2>.



**Figure 1: Calculation of IGT Entry Charge**

- 1.10 **Annual adjustment:** Under the RPC, transportation charges are adjusted annually in line with the average change in the relevant GDN's SSP charges published by Ofgem. The annual adjustment is capped by a floor and ceiling which is initially set at 5% below and above the entry charge and adjusted annually in line with the change in Retail Price Index (RPI) and the annual percentage change as set out in Special Condition 1 of the IGT licences.
- 1.11 The RPC and relevant licence conditions were last reviewed by Ofgem in 2013–2014. Following consultation, Special Condition 1 of the IGT licences was modified to remedy a number of issues. Specifically, these modifications amended the tracking of GDN charges between the RPC cap and floor as well as addressing ambiguity relating to the infill surcharge and the annual update of charges for properties that enter the RPC in the winter quarter.

### **Recent developments relevant to the regulation of IGT charging**

- 1.12 Since the last review of the IGT RPC we have received the following feedback and views relating to its operation from relevant stakeholders, including representatives of the IGTs:
- 1) That the annual change in the GDNs' SSP charges has generally outpaced the 'RPI + annual percentage change' effect on the floor and ceiling. This has resulted in IGT charges being constrained by the ceiling price within a few years of entry point. We have been advised that the charges for 67% of supply points on the IGT networks are currently at the ceiling.
  - 2) That IGTs' ability to accelerate recovery of historical investment through charging is potentially constrained under the current framework because of the restrictions placed on IGT charges by the RPC ceiling. Our decision to

accelerate the GDNs' depreciation charges,<sup>3</sup> set out in our July 2024 RIIO-3 Sector Specific Methodology Decision<sup>4</sup>, may present incompatibilities between the RPC arrangements, as they currently stand, and the upcoming RIIO-3 framework, once implemented.

- 3) That, under the existing regulatory framework, there is no mechanism for IGTs to recover certain disconnection costs when gas consumers on IGT networks approach their Gas Supplier to request a disconnection. We have been informed that IGTs may be unable to levy a disconnection charge in accordance with Standard Condition 4B of the Gas Transporters' Licence and cannot recover the costs from their customer base via transportation charges, due to the capped nature of RPC. We have recently<sup>5</sup> published a Call for Input signalling our intention to review the regulatory arrangements that govern the gas disconnections process for domestic and small business consumers to ensure it remains fit for purpose and support an orderly decommissioning process. IGT stakeholders have previously suggested that any changes to the arrangements that are applied to GDNs following the review should also be implemented for IGTs under the RPC framework as both GDNs and IGTs are facing similar challenges in terms of potential acceleration of gas network disconnections (and therefore increasing costs) in the context of system decarbonisation.

## Potential impact

- 1.13 Any proposed amendments to the RPC must be considered carefully as they may impact consumers in several ways, both directly and indirectly.
- 1.14 In the absence of a full price control framework, the RPC framework is intended to ensure that consumers on an IGT network are not worse off compared to those on a GDN network by limiting network charges to those of GDN equivalents. This directly impacts current gas customers serviced by IGTs and should ensure that, in the event competitive pressures do not result in efficiencies, resulting network

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<sup>3</sup> Regulatory depreciation is a key building block of the revenue that network companies are allowed to make. Regulatory depreciation is comprised of an assumed asset life (or lives) and an assumption of the profile(s) of usage across the asset life (or lives). The regulatory depreciation assumptions determine the speed that Regulatory Asset Value (RAV) additions are paid for by consumers as part of the return of capital to investors.

<sup>4</sup> <https://www.ofgem.gov.uk/decision/riio-3-sector-specific-methodology-decision-gas-distribution-gas-transmission-and-electricity-transmission-sectors>

<sup>5</sup> [Call for Input - Exercising Consumer Choice: A review of the gas disconnections framework](#)

charges should not be substantively higher than those of similar customers who are receiving services from GDNs. There are currently around three million gas consumers served by IGTs across GB. Furthermore, IGTs have overtaken GDNs as the primary source of new connections, meaning that the number of such connections may continue to grow as the total number of GDN customers starts to decline. The price of network charges accounts for 21.5% of the typical price-capped dual fuel household bill (for direct debit customers). It is vital that any RPC continues to protect the three million IGT connected consumers and potential future consumers, and that any regulation ensures they are receiving fair prices and quality services.

- 1.15 While the direct impacts on consumers through network charges are a primary consideration in any review of the IGT RPC, prices are not the only consideration. We are aware of concerns from industry in terms of IGTs' ability to accelerate the recovery of historical investment and the costs of disconnections in response to the net zero transition. As previously mentioned, disconnection costs for domestic and small business consumers will be addressed as part of a broader review focusing on that issue. While Ofgem is yet to fully analyse the matter, we are aware of claims from the IGT sector that current RPC settings may constrain efficient recovery of historical investment or the ability to fund relevant activities. Should this prove true, it is possible that this may impact the financeability of IGTs, and ultimately their financial viability should they face financial distress. This could negatively impact the interests of current and future consumers through lower quality services, and potential supply disruptions.
- 1.16 Lastly, we acknowledge the role IGTs play in the broader gas connection market, including their adoption of assets built by Utility Infrastructure Providers (UIPs), entities that are not regulated by Ofgem. The revenue recoverable by IGTs must be adequate to cover core business activities and prevent inefficient market exits; failure to set the RPC at reasonable levels could impact IGTs' financial viability, resulting in less competition in the connections and adoptions sector.

### **Intention to conduct a review of the RPC**

- 1.17 Considering the recent stakeholder feedback relating to IGTs and in order to ensure that the price control framework for IGTs continues to be fit for purpose as we move towards net zero, it is our present intention to initiate a review of the RPC framework. The full scope of the review is yet to be determined and will be informed by the responses we receive to this Call for Input. We will seek to ensure that the review improves regulatory arrangements in line with our



principal objective and statutory duties. Chapter two provides more information on our proposed objective, scope and approach of a potential review.

- 1.18 We are also issuing this document to alert parties, in particular current and prospective IGTs and the gas customers they serve, that the existing regulatory arrangements may be reviewed to address potential challenges, including but not limited to those identified in this document. This means that any arrangements in place now may not be enduring.

## 2. Objective, scope and approach of a potential review

### Objective and scope

- 2.1 Ofgem's principal objective under the Gas Act 1986 is to protect the interests of existing and future consumers in relation to gas conveyed through pipes.
- 2.2 If a review of the RPC is confirmed, the primary aim of the review will be to consider the current and future challenges facing IGTs and assess whether we have the right price control framework to protect the interests of current and future consumers, including their interests in net zero being met, at lowest cost.
- 2.3 While the full scope of a possible review is yet to be determined, we expect it will primarily focus on the actual costs incurred by IGTs in transporting gas to consumers.
- 2.4 The review may also extend to other matters, including:
  - (1) Factors affecting demand and supply of gas transportation services by IGTs, including levels of competition within the IGT Market.
  - (2) The impact of the above matters on the viability and profitability of IGTs, and the quality of service provided by those IGTs.
  - (3) The impact and effectiveness of the existing IGT RPC mechanism, in directly and indirectly protecting the interests of current and future consumers, including their interests in net zero being met.
  - (4) The potential impact and effectiveness of alternate regulatory mechanisms other than the IGT RPC, in directly and indirectly protecting the interests of current and future consumers, aligning with future RIIO-3 decisions on the speed of accelerated depreciation and supporting the Government meet its obligation to get to net zero by 2050.
  - (5) Existing licence conditions relating to the IGT RPC mechanism and any modifications required to ensure the framework remains fit for purpose.
- 2.5 Subject to the views of stakeholders, the review may also cover the following:
  - (1) To the extent this is not considered as part of the Disconnections review, the indirect financial and non-financial impacts of the IGT sector on related

industries including the utilities connection industry and potential impacts on current and future IGT consumers.

## **Approach**

- 2.6 If we conduct a review, we will use information, data and documents gathered to identify existing and future trends, risks and opportunities within the IGT sector. We will gather this information and the views of stakeholders via this Call for Input, as well as potential formal consultations and direct engagements if necessary.
- 2.7 To conduct any review of the IGT RPC to a standard reasonably expected by our consumer, industry and government stakeholders, and that will satisfy us as to the appropriateness and correctness of any emerging policy proposals, we will require further and additional information beyond that which has been previously collected by Ofgem. We expect this may include details of certain aspects of IGT operations (both financial and non-financial), as well as further information about those energy consumers impacted by any such proposal. To that end, we are proposing to eventually collect from IGTs the following information and data covering the previous seven financial years, current year and next five financial years, where applicable:

### Details and estimates of IGT operations:

- i. Network size (Qualitative & Quantitative)
- ii. Network asset value (Quantitative)
- iii. Geographic coverage (Qualitative & Quantitative)
- iv. Connections to supply points disaggregated by consumer type, including:
  - (1) Domestic (Quantitative)
  - (2) Commercial (Quantitative)
  - (3) Industrial (Quantitative)
  - (4) Other (Qualitative & Quantitative)
- v. Connections to supply points by age of connection
- vi. Connections to vulnerable consumers (Qualitative & Quantitative)

### Details and estimates of operating and capital expenditure:

- vii. The costs of labour (salaries and wages) (Quantitative)
- viii. Use of land and related costs (including rent) (Quantitative)
- ix. Finance and administration costs (Quantitative)
- x. Regulatory and policy compliance costs (Quantitative)
- xi. Costs of consumables or other business inputs (Quantitative)
- xii. Costs of repairs, upkeep and maintenance (Quantitative)
- xiii. Purchase of land, property or tangibles (Quantitative)
- xiv. Investments for the betterment of land, property, other tangibles (Quantitative)
- xv. Purchase or investment of intangibles (licences, IP, technology) (Quantitative)

Details and estimates of IGT revenue and profit:

- xvi. Prices charged to supply points, disaggregated by consumer type, including:
  - (1) Domestic (Quantitative)
  - (2) Commercial (Quantitative)
  - (3) Industrial (Quantitative)
  - (4) Other (Quantitative)
- xvii. Operating Profits (Quantitative)
- xviii. Net Profits (Quantitative)

Market factors that may influence IGT operations, revenue & profit

- xix. Impacts of consumer behavioural change (Qualitative & Quantitative)
- xx. Impacts of competition in the gas transportation market (Qualitative & Quantitative)
- xxi. Impacts of innovation and technology (Qualitative & Quantitative)

Non-market factors that may influence IGT operations, revenue & profit

- xxii. Impacts of economic regulation of IGT Market (Ofgem-based) (Qualitative & Quantitative)
- xxiii. Impacts of non-economic regulation (including net zero obligations and safety regulation) (Qualitative & Quantitative)

Details of quality of service:

- i. Network downtime (Qualitative & Quantitative)
  - ii. Complaints (Qualitative & Quantitative)
- 2.8 We intend to gather the information required to carry out this review via voluntary consultations, conducted in due course following the closure of this Call for Input. Commercially sensitive and confidential information collected as part of this process will be protected as set out in chapter 4 of this document. If we cannot collect sufficient information or data via voluntary consultation, we may elect to issue a Request for Information to regulated entities under Section 34A of the Gas Act 1986.
- 2.9 We will use the information we gather and analysis we complete to understand the impact and effectiveness of the existing price control mechanism, the RPC, and to compare current arrangements with alternate arrangements of merit identified by us, industry or other stakeholders. We will develop an approach to assessing the different options and identify the key principles for an effective price control mechanism in accordance with our statutory duties.
- 2.10 The review may produce one or several different options depending on the results of the analysis undertaken by us. Depending on that analysis, we may elect to do nothing, or we may elect to modify the IGT Licence to incorporate any changes to the RPC, or establish a new price control mechanism.

### 3. Responding to the Call for Input

#### Who should respond?

- 3.1 We are keen to engage with as wide a pool of interested parties as possible. This Call for Input has therefore been drafted with the intention that it is read by a general audience, including industry stakeholders such as gas transporters, shippers and suppliers, those working in the gas sector as well as consumer representatives. While questions 1 – 4 have been drafted with this in mind, we consider questions 5 – 7 to be relevant only to IGTs given the nature of the data and information sought.
- 3.2 We welcome responses to the questions that follow and, as far as possible, ask that responses are supported with appropriate evidence in the form of information, documents, data and analysis.

#### Questions

##### Scope of a potential IGT RPC review

**1. To what extent do you support a review of the IGT RPC framework?**

*How do recent developments, including those we have listed or any others of which you are aware, inform your opinion? We are especially interested in views in relation to the following perspectives:*

- a. Interests of existing and future gas consumers*
- b. System decarbonisation to achieve net zero*
- c. Economic growth.*

**2. To what extent does our proposed review scope meet your expectations?**

*If the proposed scope does not meet your expectations, please provide details of what should be excluded / included and your reasons for those exclusions / inclusions.*

**3. To what extent does our proposed approach meet your expectations?**

*If the proposed approach does not meet your expectations, please explain why and what could be done to meet your expectations.*

##### Data and evidence to be considered in a potential review

We set out at paragraph 2.7 an initial list of qualitative and quantitative information and data that we intend to collect to support a potential review and to build a complete understanding of IGTs' gas transportation business.

**4. To what extent do you agree that the information and data suggested at paragraph 2.7 is reasonable and sufficient for the purposes of the proposed review?**

*If you consider that the information being requested is unreasonable or insufficient, please explain why and provide any amendments, alternatives or additions.*

*The following questions are intended for **IGTs only**:*

**5. How much of the information and data set out in paragraph 2.7 could reasonably be provided?**

*If some information or data cannot be provided, is unavailable or you consider it would be unreasonable to provide the information or data, please explain what information or data this is and provide reasons as to why it cannot be provided, or why it would be unreasonable to provide.*

**6. What lead times are reasonable for the compilation and submission of the information and data set out at paragraph 2.7?**

*In relation to the information or data you believe can be reasonably provided, what is an appropriate amount of time to provide you to compile and submit that data, keeping in mind the desire for any potential review to be completed so as to align with the implementation of the RIIIO-3 GD Price Control.*

**7. Are there any sensitivities around the collection, use and disclosure of the information and data to be requested?**

*In relation to the information or data you believe can be reasonably provided, please explain any sensitivities around the collection, use and disclosure of that data, and provide any suggestions as to how Ofgem could address those sensitivities.*

## 4. Next steps

- 4.1 Following this Call for Input, we will assess stakeholders' responses and evidence to consider whether the objectives, scope and proposed conduct of our planned review is correct, and whether the current RPC is sufficient to meet current and future challenges. We will consider what, if any, policy interventions are required and may further engage with industry on potential options and next steps. We will also consider if the information and data we propose to collect from industry (as referenced in paragraph 2.7) is sufficient and appropriate, and may develop a framework/ template to facilitate industry to provide the information and data to us.
- 4.2 We may publish non-confidential responses to this Call for Input on our website (see paragraphs 4.3-4.6 below for more information).

### Your response, your data and confidentiality

- 4.3 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 4.4 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. We advise that you password protect your response and send your response and the password to us in two separate emails. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 4.5 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000.



- 4.6 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.