

**Cadent Response of the Ofgem Consultation on the operation of the SIF
2 June 2021 – Annex 1 to the Covering Letter**

As there has been regular engagement with the Gas Networks as the new SIF arrangements have emerged, we have already fed back suggestions, comments, issues and concerns. We have therefore only responded to the questions below where we have a new or specific issue to raise.

Question 1: Do you agree that our proposals to appoint and remunerate UKRI as our delivery partner provide value for money to energy consumers? If not, please explain why.

It is difficult to comment on value for money in the absence of either detailed benchmarking or a competitive tendering process. Given the importance of competition in driving value for consumers, it would be helpful if Ofgem could provide their rationale for why this has not been explored in this case, for a service that could cost consumers over £50m over the course of RII0-2. These factors may have application in other areas.

Question 2: Do you have views on the means by which we can gather stakeholders' insight into strategic innovation priorities before developing a challenge?

Regional engagement at a local authority level is becoming increasingly important in determining energy infrastructure needs going forward. There does not however seem to be any route for such local representation to be fed into the process. We would like to see this addressed and suggest the addition of a UK100 representative to help fill this key stakeholder gap.

Question 3: Do you consider our proposed three-phase approach suitable to support large-scale strategic network innovation projects, while encouraging learning and mitigating risk? If not, please set out your reasons why.

Question 4: Do you consider that the indicative value and length of the different Project Phases will accommodate a wide range of network innovation projects to support net zero?

Response covering both Q3 and Q4:

The added complexity and uncertainty in many areas of the new SIF process could result in less projects coming forward over time, and we would recommend Ofgem kept the process under review and takes urgent action to remove barriers if this does happen.

Paragraph 20 refers to scope for higher risk / higher reward. We would be grateful if Ofgem could set out how forthcoming regulatory review processes will ensure an appropriate share of benefits delivered by network licensees can be realised.

Question 5: Do you agree with our proposed Eligibility Criteria? If not, please

explain why.

Whilst we understand Ofgem's desire to deploy bespoke criteria, we note that this may reduce the scope to undertake early bid preparation as there would be a higher risk that this effort is wasted, once the bespoke criteria are published.

Question 7: Do you have views on the circumstances in which Ofgem may require a higher level of compulsory contribution towards projects?

We do not support the current level of contributions for networks, and this view is compounded by the potential for higher rates which may become known with little warning, potentially wasting any preparatory work undertaken. We also note the references to higher benefits for licensees. We would be grateful if Ofgem could set out how forthcoming regulatory review processes will ensure an appropriate share of benefits delivered by network licensees can be realised, and not simply lost in the mix.

It is hard to see how this would be possible, not least due to the challenge of calculating a benefit figure. We believe a much fairer and simpler approach would be to revert to the initial NIC mechanism where licensees contribution would be returned upon meeting the project's success criteria. This gives networks a strong incentive to deliver, and leaves them held whole, even for higher risk projects where the valuable learning is that the benefits cannot be realised.

Question 10: Do you agree with our proposals on requirements for project applications? If not, please explain why.

We think it must be a requirement for a project requiring work on a network, to have at least one network's active support demonstrated in the application.

Question 13: Do you agree with our proposed funding arrangements for SIF projects? If not, please explain why and suggest whether there are alternative funding arrangements that may be preferable.

We note the reference to different funding mechanism that could be considered in future. If the work is triggered when a project arises that may need a different approach such as a RAB treatment, consulting at that stage is likely to add delays to the project. We would recommend that Ofgem kick off a generic piece of pre-work and initial consultation on the options ahead of a real project requiring their use. We would be happy to support Ofgem in developing the thinking in this space and any consultation and engagement process.

A further benefit of this pre-work would be to confirm whether or not Ofgem had the necessary power to make changes to Licences to deliver new funding approaches. Finding this out late in the process will add additional time to the project delivery.

Regarding the timing of funding for Licensees, we support a principle that funding should always be provided as close as possible to when the costs are incurred. This is particularly important for longer and higher cost projects. This can be achieved best by allowing forecast of costs to be included in the revenue recovery mechanisms.

