

Date
24 February 2022

Cadent Gas Limited
Pilot Way Ansty Park
Coventry CV7 9JU
United Kingdom
cadentgas.com

Jonathan Brearley
Office of Gas and Electricity Markets
10 South Colonnade
Canary Wharf
London
E14 4PU



Email: FWP@Ofgem.gov.uk

Dear Jonathan

Response to 2022/23 Forward Work Programme Consultation

I am writing to respond to Ofgem's consultation on the Forward Work Programme for 2022/23 which was published on 17 January 2022.

The consultation document sets out a very comprehensive programme of work to be undertaken during 2022/23 and we are committed to supporting Ofgem in the successful delivery of this plan.

Following the challenges seen in the market, particularly over the past six months, and the significant impacts these have had on both customers and energy companies, we are supportive of Ofgem's review of the retail market.

We are also keen to engage on how the gas market can support Great Britain's drive towards Net Zero and how the RIIO-3 network price control framework can be designed to support this transition. We have been undertaking a programme of work to review the existing regulatory and industry frameworks and to consider where they can be built on to deliver the energy transition. Our 'RIIO for 2050' work will launch imminently and seek to now bring together thoughts across the sector to further bring these issues to life and think through potential solutions. We are keen to continue our engagement with you on the work as we take it forward.

Based on our work we have a number of specific views on key elements of your plan which we believe could be important in supporting the transition. These concern:

- *the scope and approach to a system-wide strategic plan across electricity and gas* – which we believe could be an important vehicle to support consistency in price control treatments, planning scenarios and network investments as technological and policy uncertainties are resolved and to consider what will be required to coordinate the transition to a hydrogen based market for different types of consumers. In developing this it will also be important to reconcile what this means for existing and upcoming RIIO-2 settlements;
- *the development of a future gas policy* – which we think needs to be broadened in scope to recognise the scale of transformation that will be needed in the sector in the run up to 2050 and balances approaches taken to key programmes and policies to support the delivery of benefits for customers. For example, by bringing forward changes required to support hydrogen development and use at scale for industry, transport and domestic



heat and considering the appropriate role of iron mains replacement and readying the gas network to support hydrogen transportation. In the Appendix to this letter we have set out our initial view of the scope of the planned review to inform future gas policy which we are keen to discuss with you; and

- *the need to reform energy system governance* – UK Government will provide a Strategic Policy Statement for Ofgem, but changes to the governance framework are likely to be needed that are wider reaching. In particular in the area of local area planning so that there is a clear and consistent 'line of sight' in the development and assessment of local area energy plans, how this aligns with national ambitions and how they form needs cases for network investments.

Finally, we are supportive of Ofgem's objective to reduce regulatory burden. Through the establishment of the RIIO-GD2 price control framework we have seen a trend of increased burden being placed on network companies and administrative requirements on Ofgem, with in some cases, a lack of clarity over how requirements and incentives support the meeting of overall price control objectives. We have engaged with your teams on specific areas, including the development of the annual Regulatory Reporting Pack and the Network Asset Risk Metric. However, we welcome the opportunity to engage further and more holistically with Ofgem on how it can deliver value to customers, provide clarity in how approaches taken meet overarching objectives to support the right decision-making while minimising regulatory burden to administer for all parties.

We look forward to working with you and your team as you deliver against this Forward Work Programme. In the meantime, if there is anything that you would like to discuss further, please do not hesitate to contact us.

Yours sincerely

[By Email]

Steve Fraser
Chief Executive Officer



Appendix – Potential scope for Future Gas Policy Review

This appendix sets out Cadent's initial view of the important areas of scope for Ofgem's forthcoming gas review to cover to inform future gas policy. While Ofgem has noted a sub-set of these in its consultation, our view is that the scope should be broad given the scale of transformation needed within the sector. However, in doing so Ofgem should leverage other work already being progressed across a number of programmes which could inform the review. For example:

- The joint Ofgem/BEIS work on the Future System Operator;
- Work being undertaken by network on key hydrogen demonstration projects (such as HyNet) and the Hydrogen Village Trail;
- BEIS's work on the future of economic regulation.

In forming our thoughts on the potential content of Ofgem's review we have sought to build on this existing work being undertaken by Ofgem, BEIS and other parties so that the review mutually reinforces and ties together these activities.

We are also undertaking our own work in these areas and would welcome further discussion with Ofgem on the strategic aims of the review and the potential content to be covered which we have suggested below.

Key areas of scope:

Future scenarios for gas networks and implications across electricity and gas

There is currently significant uncertainty over the Government's domestic heat policy which has a significant impact on the strategic direction of gas networks and the scale of change needed in electricity networks and hence has implications on investments across both gas and electricity networks. Therefore, we think consideration should be given to:

- consolidating views on the potential alternative states of the gas networks in the run up to 2050 ranging from full hydrogen conversion to electrification across different areas of the UK; and
- the implications of these alternative states on approaches to supporting low-regret investment across networks in upcoming RIIO-2 (electricity) and RIIO-3 (gas and electricity) price controls; and
- what new roles, responsibilities or bodies are required to support delivery of future gas scenarios across different regions of the UK (including for 'first move' hydrogen areas).

Approaches to supporting the evolution of price controls with developments in heat policy

The UK Government are not expected to make a strategic decision on the future strategy, and particularly the role of hydrogen until at least 2026. Given this falls mid-way through RIIO-ED2 for DNOs and right at the start of RIIO-GD3 for gas networks it is important to consider what implications this has for:

- the approach to be taken to network planning of gas networks, contingent on different heat policy outcomes;
- approaches that could be adopted to support DNOs and GDNs to change investment profiles and other plans once uncertainties have been resolved 'within' applicable price controls.

Price control building blocks for RIIO-3

Given uncertainty over the future pathways for gas networks, what areas of the existing price control building blocks should be built upon in RIIO-3 to support continued affordability for customers, while bringing forward net zero and preserving optionality to utilise a range of pathways. This includes consideration of:

- outputs and incentives on network companies to support net zero investments
- approaches to cost assessment, particularly for new and innovative projects
- approaches to returns (including depreciation) to support cost recovery, affordability and intergenerational fairness

Hydrogen development

Hydrogen is likely to play a key role in the transition to net zero under all scenarios. Therefore it is important policy be considered on:

- approaches to funding, regulation and delivery of blended and full hydrogen development/demonstration projects within RIIO-2 and RIIO-3 gas price controls

Cadent Gas Limited

Registered Office: Pilot Way Ansty Park
Coventry CV7 9JU United Kingdom
Registered in England and Wales No.10080864

National Gas Emergency Service
0800 111 999* (24hrs)

*Calls will be recorded and may be monitored



- approaches to regulation of hydrogen assets/networks/clusters in the long-term; and
- changes needed to industry structures and regimes to support hydrogen development (such as codes and charging).

The role of the Iron Mains Replacement Programme (IMRRP)

The IMRRP is reaching the end of its 30-year programme (which ends in 2032) hence it timely to consider the process to conclude the existing programme and consider future plans with regard to what is required to keep customers safe and secure whilst delivering the transition to Net Zero.

We believe any review should consider a number of aspects:

- **The safety case** – whether a mains replacement programme should be extended (either to different materials – e.g. steel, or to focus specifically on certain areas such as larger diameter pipes to support continued safe flow of gas through networks (which will continue over at least the next decade under any future scenario.
- **The Environmental and social case** – whether and how the programme could be modified to support ‘hydrogen-readiness’ in particular areas and to support reductions in methane leakage in line with COP26 commitment.
- **The Reliability Case** – whether there is scope to modify the programme to support greater network resilience in particular areas or to serve particular customers where the impact of loss of supply is more severe.
- **The cost-benefit case** – how the overall cost benefit of investment decisions is calibrated and to consider the interaction between Ofgem’s Network Asset Risk Metrics methodology and the Main Risk Prioritisation System used to underpin the IMRRP.