
Cadent Non-Operational IT Capex Re-opener Final Determination

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This document sets out our decision on Cadent Gas Ltd's (Cadent) Non-Operational Information Technology (IT) Capex Re-opener submission.

As part of the RIIO-2 price control, network companies can apply for additional allowances via the Non-Operational Information Technology Capex Re-opener uncertainty mechanism.

In the 23 January 2023 to 30 January 2023 Re-opener window, we received a submission from Cadent for additional allowances. We consulted on our Draft Determination and associated draft direction between 22 May 2023 and 24 June 2023. Having considered all responses to our consultation, this document sets out our decision on what allowances, if any, to award. This document also includes the formal direction used to implement our decision into Cadent's licence.

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Contents

Cadent Non-Operational IT Capex Re-opener Final Determination.....	1
Introduction.....	4
Introduction to RIIO-2	4
What did we consult on?	5
Context and related publications	6
2. Summary of Draft Determination and Cadent’s response	7
Summary of Draft Determination.....	7
Summary of stakeholder’s responses	8
3. Final Determination.....	10
Final Determination.....	10
Appendices	11
Appendix 1 – Direction.....	12

Introduction

Section summary

This section explains Cadent's submission, our assessment and consultation process, and how we came to a decision.

Introduction to RIIO-2

- 1.1 Network companies are natural monopolies. Effective regulation of privatised for-profit monopolies is essential to ensure they cannot unfairly exercise their monopoly power to the detriment of their customers. This is particularly important in the case of essential utilities, such as energy, where consumers have no choice on whether or not to pay what they are charged. It is therefore crucial that an effective regulator protects energy consumers by controlling how much network companies can charge their customers. Ofgem does this through periodic price controls that are designed to ensure network companies are properly incentivised to deliver the best possible outcomes for current and future energy consumers. This includes ensuring that consumers only pay for investments that are needed and do not overpay for those investments.
- 1.2 The current price control model is known as RIIO (Revenue = Incentives + Innovation + Outputs). RIIO-2 is the second price control under the RIIO model for electricity transmission, gas transmission and gas distribution, and runs from 1 April 2021 until 31 March 2026. It includes a range of Uncertainty Mechanisms (UMs) that allow us to assess applications for further funding during RIIO-2 as the need, cost or timing of proposed projects becomes clearer. This ensures that consumers fund projects only when there is clear evidence of benefit, and we have clarity on likely costs and cost efficiency. These mechanisms also ensure that the RIIO-2 price control has flexibility to adapt as the pathways to Net Zero become clearer.
- 1.3 Where possible, we have set automatic UMs, such as the Generation and Demand Connection Volume Drivers, which provide Electricity Transmission Owners with immediate funding when they are required to undertake new customer connection works. In other areas, where the degree of uncertainty is too great to allow for an automatic mechanism, we set 're-openers' which will allow us to assess proposals robustly once information with sufficient accuracy is made available.

- 1.4 The Non-Operational IT Capex Re-opener provides network companies with specific time periods ('windows') within the RIIO-2 period where they can request additional funding for new and replacement IT assets, including hardware, infrastructure, and software development projects, some of which may be critical for achieving Net Zero.

What did we consult on?

- 1.5 We¹ consulted on adjusting Cadent's Non-operational Information Technology (IT) Capex² outputs and allowances under the RIIO-2 Non-operational IT Capex Re-opener.
- 1.6 In accordance with Special Condition 3.7 (Non-operational IT Capex Re-opener), Cadent applied to Ofgem to add additional allowances for Non-operational IT projects into its RIIO-2 price control framework. Following its submission in January 2023, Cadent also provided additional information to us through a combination of bilateral meetings and Supplementary Question (SQ) responses.
- 1.7 We considered Cadent's proposals and its justification for the funding requested in accordance with our principal objective and statutory duties. In line with the Re-opener Guidance and Application Requirement Document³, our assessment covered the following three areas:
- the needs case
 - the options assessment and the justification for the proposed project
 - the efficient costs for the proposed project

We combined this information to create our Draft Determination on what additional allowances, if any, should be provided to Cadent to undertake the project.

- 1.8 We issued a consultation on our Draft Determination⁴ for stakeholder feedback, alongside a draft of the direction that would be used to implement the Draft Determination. Only one stakeholder, Cadent, responded to the consultation. A summary of this consultation response is included in Chapter 2. Having considered the response, our Decision is set out in Chapter 3.

¹ The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² Expenditure on new and replacement IT assets, including Hardware & Infrastructure and Application Software Development

³ [Re-opener Guidance and Application Requirements Document: Version 3 | Ofgem](#)

⁴ [RIIO-2 Non-operational IT Capex Re-opener Draft Determination: Cadent | Ofgem](#)

1.9 Throughout this document all monetary figures are in 2018/19 prices, to align with the original RIIO-2 price base.

Context and related publications

1.10 The scope of this document is limited to Cadent's Non-operational IT Capex Re-opener. This document is intended to be read alongside:

- Cadent Non-Operational IT Capex Re-opener Draft Determination (May 2023)⁵
- Cadent's Licence Special Conditions 3.7
- RIIO-2 Re-opener Guidance and Application Requirements Document
- RIIO-2 Draft Determinations – Core Document⁶
- RIIO-2 Final Determinations – Core Document (REVISED)⁷

⁵ [RIIO-2 Non-operational IT Capex Re-opener Draft Determination: Cadent | Ofgem](#)

⁶ https://www.ofgem.gov.uk/system/files/docs/2020/07/draft_determinations_-_core_document_redacted.pdf

⁷ https://www.ofgem.gov.uk/system/files/docs/2021/02/final_determinations_-_core_document_revised.pdf

2. Summary of Draft Determination and Cadent's response

Section summary

This section outlines our Draft Determination and Cadent's response to it.

Summary of Draft Determination

- 2.1 The re-opener submission identified the need for additional funding to "support Cadent's growing maturity against the Data Best Practice (DBP) Guidance"⁸ and to ensure that Cadent can comply with its licence obligations⁹ related to the DBP Guidance.
- 2.2 In our Draft Determination, we agreed that Cadent needed to improve the maturity of its policies, processes, and governance against the DBP Guidance, in order to comply with its licence obligations (Special Condition 9.5) and stakeholders' growing expectations.
- 2.3 Cadent explored seven options to address this needs case and we agreed with Cadent's overall position that growing its maturity with the DBP Guidance would require several different ventures to be run at pace and in tandem.
- 2.4 We concluded that the Metadata Management Tool (Option 3), consisting of deploying three modules of the Erwin Quest Metadata Management Tool, was a correct solution for helping Cadent to improve its metadata management and therefore to meet DBP Principles 2 and 3. We also considered that the Open Data Portal (Option 4), which would implement and configure a Data Portal that enables Data Users to discover and access Data Assets, was also a correct solution for enabling Cadent to partially meet DBP Principles 4-11¹⁰.
- 2.5 However, we concluded that the Interoperability workstream (Option 5), which would develop, publish, and support APIs to exchange data, was not sufficiently justified. Cadent did not provide sufficient evidence that its data users require the use of Application Programming Interfaces (APIs) to access Cadent data assets. We stated that Cadent should continue to improve the visibility of its Data Assets over the RIIO-GD2 period, which would encourage stakeholders to request data

⁸ [Data Best Practice Guidance v1.pdf \(ofgem.gov.uk\)](#)

⁹ Gas transporters, such as Cadent, are required to give their best endeavours to follow the DBP Guidance Principles by virtue of Part of Special Condition 9.5 (Digitalisation) of its Gas Transport Licence.

¹⁰ Principles 4 –11 of the DBP Guidance in footnote 7 above

and therefore improve Cadent's understanding of its stakeholders' requirements. If needed, Cadent could then to use this evidence to present a strong user needs case for investing in API development through its business plans for the next price control period.

- 2.6 On costs, Cadent demonstrated that it is using a significant level of internal resource. Using internal benchmarks, we assessed that these resources were costed at efficient rates and that external resources were also funded at comparable, efficient levels.
- 2.7 In line with our analysis, our Draft Determination proposed that we would fund the Metadata Management (£1.15m) and Open Data Portal (£1.55m) workstreams, with no reductions for either workstream. However, we proposed not to fund the Interoperability workstream, which would reduce the total award by £1.03m compared to Cadent's initial request.
- 2.8 **Table 1** details Cadent's requested funding, our proposed adjustments for rejecting the Interoperability workstream, and our proposed allowances against each workstream.

Table 1: Cadent's requested funding and our Draft Determination

	Cadent Proposal	Ofgem adjustments	Draft allowances
Metadata	£1,151,542.29	£0.00	£1,151,542.29
Open Portal	£1,550,477.15	£0.00	£1,550,477.15
Interoperability	£1,025,161.44	-£1,025,161.44	£0.00
Total	£3,727,180.88	-£1,025,161.44	£2,702,019.44

Summary of stakeholder's responses

- 2.9 We only received one response to our consultation, from Cadent.
- 2.10 Cadent agreed with our Draft Determination on its needs case, primarily that its proposals will support increased maturity against the DBP Guidance. Cadent also agreed with our Draft Determination on its optioneering and costs for the Metadata workstream and Open portal workstream.
- 2.11 Cadent disagreed with our Draft Determination to reject its Interoperability workstream. Cadent explained that the workstream would enable Cadent to "fully and securely achieve the eighth principle of Ofgem's DBP Guidance". Cadent also explained that interoperability is a "key driver for strategic change in Cadent's

system integration methodology as it will ensure that we can reuse and standardise integration of Data Assets, to enable the exchange of Data Assets between different solutions and/or interfaces held in numerous systems, and to join Data Assets together with other Data Assets both internally and externally”.

- 2.12 However, in its response, Cadent set out that it understands we are looking for further evidence and detail to justify the need for funding this work, so it plans to resubmit the project in the next re-opener window (28 August to 15 September 2023) with further evidence. We are open to reviewing further evidence in the next window, provided that the evidence submitted is materially different to the evidence we have already assessed and justifies the need for the project.

3. Final Determination

Section summary

This section sets out our decision.

Final Determination

3.1 Given our Draft Determination position, and in the absence of further evidence or considerations that could lead us to change draft position, we are confirming that the final allowances will remain the same as the proposed allowances in our Draft Determination.

3.2 **Table 2** details the final allowances awarded.

Table 2: Cadent's requested funding and our Draft Determination

	Cadent Proposal	Ofgem adjustments	Final allowances
Metadata	£1,151,542.29	£0.00	£1,151,542.29
Open Portal	£1,550,477.15	£0.00	£1,550,477.15
Interoperability	£1,025,161.44	-£1,025,161.44	£0.00
Total	£3,727,180.88	-£1,025,161.44	£2,702,019.44

3.3 As set out in the Draft Determination, we do not consider it necessary to impose specific Price Control Deliverables for these allowances as Cadent have licencing requirements¹¹ to meet the DBP Guidance.

3.4 The formal direction that will implement these allowances into Cadent's licence is in Appendix 1. Since the draft direction, we have made some minor amendments to formalise the language used, but the licence changes themselves remain the same as shown in the draft direction.

¹¹ Gas transporters, such as Cadent, are required to give their best endeavours to follow the DBP Guidance Principles by virtue of Part of Special Condition 9.5 (Digitalisation) of its Gas Transport Licence.

Appendices

Index

Appendix	Name of appendix	Page no.
1	Direction	12

Appendix 1 – Direction

Direction under Special Condition 3.7.6 of the gas transporter licence held by Cadent Gas Ltd (the Licensee) to add allowances for Non-Operational IT Capex

A1.1 Cadent Gas Ltd is the holder of a licence granted or treated as granted under s.7 of the Gas Act 1986.

A1.2 Special Condition 3.7 provides a re-opener mechanism by which the Licensee may seek additional funding during the RIIO-T2 price control period for activities capable of improving the efficiency or performance of its Non-operational IT Capex. The Licensee applied to the Authority under Special Condition 3.7.6 in January 2023.

A1.3 The Gas and Electricity Markets Authority ('the Authority') gave notice on 22 May 2023 in accordance with Special Condition 3.7.12 of our issuance of a direction under Special Condition 3.7.6 to amend Appendix 1 (Total Non-operational IT Capex Re-opener allowance) of Special Condition 3.7. The notice, published on the Authorities website, included the text of the proposed direction to issue, the reasons for the proposed direction and provided for representations to be made on or before 24 June 2023.

A1.4 The Authority received one non-confidential representation and has placed it on [ofgem.gov.uk](https://www.ofgem.gov.uk). Having considered this representation, the Authority has decided to proceed with making this direction. This document constitutes notice of the Authority's reasons for the direction.

A1.5 This direction will implement the Authority's decision on the Licensee's application to the Authority to add additional Non-Operational IT Capex allowances into its RIIO-2 price control framework. Further details on the reasons for and effect of this direction can be found in the main body of this document.

A1.6 Pursuant to Special Condition 3.7.6, the Authority hereby directs the changes to Appendix 1 Special Condition 3.7 as set out in this direction.

A1.7 This direction will replace Table 1 (the existing table within Special Condition 3.7 Appendix 1) with Table 2 below. The formatting has been improved to reduce ambiguity and align with tables used elsewhere in the licence.

