

Consultation

Cadent Non-Operational IT Capex Re-opener Draft Determination

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We are consulting on Cadent's Non-Operational Information Technology (IT) Capex Re-opener submission, which was submitted in the 28 August 2023 to 15 September 2023¹ Re-opener window.

We particularly welcome responses from people and companies with an interest in electricity and gas transmission or distribution. We also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

¹ This is an additional authority triggered window for the Non-Operational IT Capex Re-opener. The original fixed window within the licence was 23 January 2023 to 30 January 2023. [Direction for New IT and Cyber Re-opener Windows 2023 \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/direction-for-new-it-and-cyber-re-opener-windows-2023).

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1. Introduction

Section summary

This section provides an explanation of Cadent's submission, our assessment process, and how we will handle this consultation process.

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 some network companies 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 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 are we consulting on?

- 1.5 We² are consulting on adjusting Cadent's Non-operational Information Technology (IT) Capital expenditure (Capex)³ outputs and allowances under the RIIO-2 Non-operational IT Capex Re-opener ("the Re-opener").
- 1.6 In accordance with Special Condition 3.7 (Non-operational IT Capex Re-opener), Cadent has applied to Ofgem to add additional allowances for Non-operational IT projects into its RIIO-2 price control framework.
- 1.7 Throughout this document, all monetary figures are in 2018/19 prices to align with the original RIIO-2 price base.

Consultation approach

- 1.8 We are issuing this consultation following our assessment of Cadent's re-opener application. This document explains our assessment of that application and the adjustments we are proposing to make to Cadent's licence, including adjustments to allowances and the addition of any Price Control Deliverables (PCD).
- 1.9 We considered Cadent's application 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 Document⁴, our assessment of each project covers the three following areas:
- the needs case
 - the options assessment and the justification for the proposed project
 - the efficient costs for the proposed project

² 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.

³ Expenditure on new and replacement IT assets, including Hardware & Infrastructure and Application Software Development

⁴ [Re-opener Guidance and Application Requirements Document: Version 3 | Ofgem](#)

We rely on our assessment of these 3 areas in coming to our Draft Determination on what additional allowances, if any, should be provided to Cadent to undertake the project.

- 1.10 We will implement our decision from this consultation by way of a formal direction, which we intend to issue alongside our decision. A draft of the direction is provided in Appendix 1, subject to consultation responses.

Context and related publications

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

- the RIIO-2 Draft Determinations – Core Document, Chapter 7⁵
- the RIIO-2 Final Determinations – Core Document (REVISED), Chapter 7, page 78⁶
- Cadent's Licence Special Conditions 3.7⁷
- RIIO-2 Re-opener Guidance and Application Requirements Document⁸.

Consultation stages

Figure 1: Consultation stages

Stage 1	Stage 2	Stage 3	Stage 4
Consultation open	Consultation closes (awaiting decision). Deadline for responses	Responses reviewed and published	Consultation decision
07/03/2024	07/04/2024	June 2024	June 2024

How to respond

- 1.12 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

⁵ [RIIO-2 Draft Determinations - Core Document \(ofgem.gov.uk\)](#)

⁶ https://www.ofgem.gov.uk/system/files/docs/2021/02/final_determinations_core_document_revised.pdf

⁷ [EPR 2013 - Index \(ofgem.gov.uk\)](#)

⁸ [Re-opener Guidance and Application Requirements Document: Version 3 | Ofgem](#)

- 1.13 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.14 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

- 1.15 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.
- 1.16 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. 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.
- 1.17 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. Please refer to our Privacy Notice on consultations, see Appendix 1.
- 1.18 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.

General feedback

- 1.19 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
1. Do you have any comments about the overall process of this consultation?

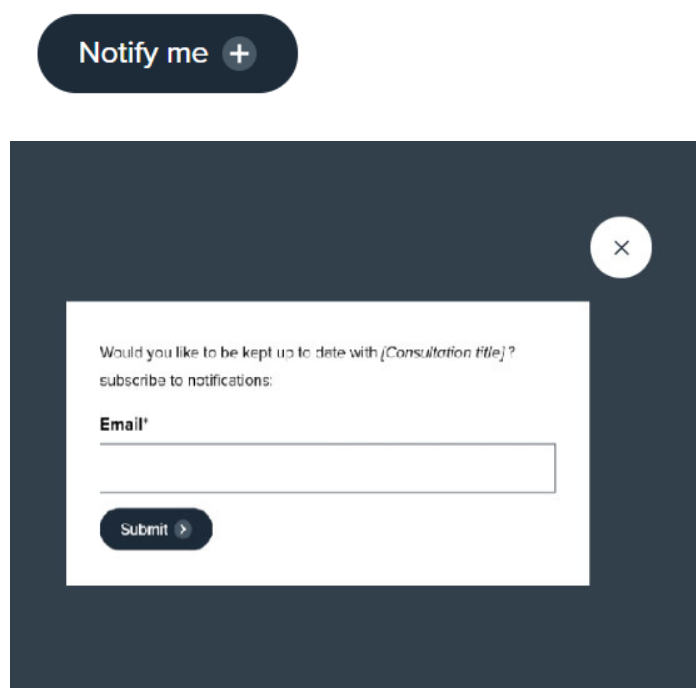
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)



The image shows a dark blue button labeled 'Notify me' with a white plus sign. Below it is a dark blue modal box with a white close button (X) in the top right corner. Inside the modal box is a white form area. The form contains the text 'Would you like to be kept up to date with [Consultation title]?' followed by 'subscribe to notifications:'. Below this is a label 'Email*' and a text input field. At the bottom of the form is a dark blue 'Submit' button with a white right-pointing arrow.

Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. Project 1: Satellite End of Life

Section summary

This section outlines Cadent's re-opener application for its proposed Satellite End of Life project and our assessment of the needs case, optioneering and costs. Based on this assessment we have formed our Draft Determination of what allowances, if any, should be added for this project.

Questions

Q1. Do you agree with our Draft Determination on Project 1?

Cadent's demonstration of the needs case

- 2.1 Cadent uses a telemetry network to monitor and dynamically control the pressure, flow, and quality of gases in its networks. The telemetry network relies on [REDACTED] Critical National Infrastructure (CNI) sites. This [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- 2.2 In [REDACTED] 2021 [REDACTED] (the satellite operator) informed Cadent that the satellite is reaching end-of-life so it would be shutting it down.
- 2.3 Cadent has set out that the absence of this critical system would mean that it would be unable to manage the pressures in its multi-pressure networks. This could lead to significant issues including loss of service for industrial users, loss of visibility of demand, loss of earnings, failure to comply with its licence conditions and increased risk of safety related incidents such as gas escapes. It would also mean that some sites would have no contingency backup so would 'go dark' and be vulnerable to cyber-attacks.
- 2.4 Cadent highlighted that these telemetry networks are separate to its other business data networks and are limited to providing its critical Supervisory Control and Data Acquisition (SCADA) control communications.
- 2.5 Overall, Cadent presents a short needs case setting out that the primary objective of this investment is to enable it to monitor, maintain and control its network via critical data collection to ensure safety and reliability.

Our Draft Determination on Cadent's needs case

- 2.6 Cadent has presented a succinct needs case that clearly explains why there is a need to act, as leaving the situation as it stands could lead to Cadent losing its monitoring of critical systems needed to effectively control its gas distribution network. We therefore agree with the needs case presented by Cadent.

Cadent's optioneering

- 2.7 Cadent are currently in contract with [REDACTED] as it has been since before decoupling from National Grid plc. Cadent stated that it was therefore contractually bound to evaluate options in conjunction with [REDACTED] through its supplier framework.
- 2.8 Cadent elaborated that it could have sought an independent contract directly with the satellite provider, but this would have required a full tender procurement process that Cadent considers would have taken over a year to complete. Cadent considered that this was financially inefficient and would have increased the risk of not delivering the pre-requisite migration work before the [REDACTED] satellite was decommissioned.
- 2.9 Cadent's optioneering explored different options ranked against seven criteria: outcome, change impact, effort, cost, time to realise benefits, strategic alignment and operability.
- 2.10 Option 1: do nothing. This option was discounted as the CNI sites relying on the existing technology would no longer transmit business-critical data back to the central SCADA system. This would lead to the issues discussed in paragraph **2.3**.
- 2.11 Option 2: use replacement satellite [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] Overall, Cadent concluded that this option did not represent value for money and would also reduce the resilience of the network as the network would have smaller geographical coverage.

- 2.12 Option 3: realign to an alternative satellite [REDACTED] Cadent has explained that [REDACTED]
[REDACTED] Like Option 2, this would require Cadent to visit each site [REDACTED] but there are no design changes required and no licencing fees, which helps to minimise the cost impact. Cadent also considers that this would have the same reliability and resilience as the existing option [REDACTED] because it provides very similar coverage.
- 2.13 Option 4: realign to an alternative satellite [REDACTED] Cadent considered waiting until a new satellite is launched [REDACTED] which would have required no design changes to its existing platform except for [REDACTED]. However, the satellite is in a substantially different location [REDACTED] which could cause line of sight issues at some sites, and the timeline means that some sites could 'go dark' for a period, as discussed in paragraph **2.3**. So Cadent discounted this option.
- 2.14 Option 5: defer solution until funding is awarded. Cadent discounted this option for the same reason as Option 1.

Our Draft Determination on Cadent's optioneering

- 2.15 We agree with Cadent's decision to reject Options 1, 4 and 5, all of which would have resulted in the loss of satellite connectivity for some of its critical sites for at least a period.
- 2.16 When choosing between Option 2 and 3, two different replacement satellites, we can see that Option 3 should provide better value for money, both in terms of the immediate cost to make the necessary changes and because there will be lower ongoing costs as there are no Office of Communications (Ofcom) licence fees necessary to use [REDACTED] (Option 3).
- 2.17 Additionally, [REDACTED] is not due to reach end of life until [REDACTED], which will future proof Cadent's satellite connectivity.
- 2.18 We therefore agree with Cadent's optioneering to reject option 2 and select Option 3, to use replacement [REDACTED]

Our Draft Determination on efficient costs

- 2.19 Cadent are requesting £0.82m for this project. As this is a retrospective project¹⁰, the amount requested reflects the actual costs incurred by Cadent. Approximately 80% of the costs incurred are third party costs, for surveys, engineers and Vodafone, with the remaining 20% being incurred directly by Cadent's internal resourcing.
- 2.20 Cadent has set out some of the measures it put in place to minimise costs:
- As the new satellite is [REDACTED], Cadent identified a 'line-of-sight' risk, where certain sites may not have line of sight to the new satellite. Rather than conduct surveys at a sample of sites, Cadent accounted for a 10% revisit rate to sites to address any issues found on the basis that it would be more cost effective to "incur costs for issues that have materialised than for investigating whether there may be issues to address".
 - Additionally, Cadent decided to purchase and carry spare dishes and mounting equipment to mitigate the risk of certain dishes being unsuitable for re-positioning or damaged during the process of re-positioning, which would otherwise lead to an additional site visit. We consider that this was a prudent action.
- 2.21 We approve of Cadent's optioneering, it's procurement strategy for undertaking its preferred option, and we can see that it has aimed to minimise costs where possible. **Our Draft Determination position is therefore to conclude that the costs it has incurred were efficient and should be awarded in full.**
- 2.22 **Table 1** below details Cadent's requested funding, our proposed reductions, if any, and our proposed allowances against each workstream. We are not proposing any Price Control Deliverables to track this project as it has already been completed.

¹⁰ A network company can either request funding upfront through the re-opener process and begin spending if we approve it, or a company can begin spending before receiving our approval and apply retrospectively in a future re-opener window. If a company chooses to begin spending first, this means any spending will be at their risk as we may later reject their re-opener request.

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

Cadent proposal	Ofgem adjustments	Draft allowances
£0.82m	£0	£0.82m

3. Project 2: Multiple Occupancy Buildings (MOBs) Operations Transformation

Section summary

This section outlines Cadent's re-opener application for its proposed MOBs Operations Transformation project and our assessment of the needs case, optioneering and costs. Based on this assessment we have formed our Draft Determination of what allowances, if any, should be added for this project

Questions

Q2. Do you agree with our Draft Determination on Project 2?

Cadent's demonstration of the needs case

- 3.1 Cadent is requesting funding for three workstreams that it considers will transform its operations for MOBs:
- Workstream 1: Update to G5 Edition 3 policy
 - Workstream 2: Requirement to capture data and digitalise asset management processes for new classes of MOBs
 - Workstream 3: Requirement to track and report on new types of operational activity, not previously in scopes
- 3.2 For Workstream 1, Cadent has adopted the full G5 Edition 3 policy¹¹, set out by the Institution of Gas Engineers and Managers, which combines the latest regulations and best practice to improve safety design and operation throughout the asset lifecycle. This new standard directly impacts several Cadent systems including:
- Professional competence of individuals
 - MOBs risk hierarchy
 - Construction Design and Management regulations (CDM) roles and responsibilities
 - Recording/sharing of data with building owners or responsible persons
 - Changes to asset design processes

¹¹ [IGEM/G/5 Edition 3 - Gas in multi-occupancy buildings with amendments April 2023](#)

- 3.3 For workstream 2, Cadent explains that it wants to capture additional data and digitalise asset management processes for new MOB subsets. It explains that recent industry research and the evolution of building standards means that it should introduce a new risk model with new subsets of MOBs to deliver unique and targeted processes. The new subsets of MOBs are:
- Multi-occupancy commercial structure (MOCS) such as hospitals and shopping centres
 - Large Diameter Services (LDS) with higher volumes and pressures of gas
 - Meter Banks (MB) where there are big banks of meters together, rather than individual meters next to each property
- 3.4 For workstream 3, Cadent is planning to track and report on new types of operational activity. Cadent believes that tracking more extensive types of information will enable to improve its processes, which will ultimately help it to deliver the right interventions at the right time. It is focusing on new technology and field data capture for:
- Fault remediation for high-rise buildings and low-rise buildings
 - MOCS fault remediation and interventions
 - LDS fault remediation and interventions
 - MB fault remediation and interventions
- 3.5 Overall, Cadent considers that investing in the systems and processes to improve how it captures data related to MOBs will improve the safety, compliance and reliability of its services for its customers. Conversely, if it does not invest, then there is a risk that inefficient data capture and processing, via inefficient manual processes, could increase the risk of interruption to customers gas supplies.

Our Draft Determination on Cadent's needs case

- 3.6 In 2019 Ofgem investigated Cadent for failures to data management around high-rise buildings and discovered that it held no records for 775 high rise blocks of flats in its gas network¹². Following that action, Cadent committed to rectifying the issues discovered and to improve its data and processes related to high rises.
- 3.7 Following Cadent's submissions, we can see that there could be a case for investing in new technology to improve how Cadent captures data more broadly

¹² [Cadent pays £24 million for past failures and establishes a £20 million community fund | Ofgem](#)

across more categories of Multiple Occupancy Buildings. This could potentially achieve operational efficiencies and enable Cadent to plan and carry out maintenance work in the MOBs in its network more effectively.

Cadent's optioneering

- 3.8 Cadent has explored four different options to address the needs case.
- 3.9 Option 1 - Do nothing (£0): This would maintain the existing manual processes, with disparate MOBs data capture and asset management Systems. This has the risks discussed in the needs case, including a higher risk of comparative danger to customers.
- 3.10 Option 2 - Automation and procurement of new IT (Market-Based, £3.9m): This would be a full tender for a system that can automate existing manual processes. Cadent explored two sub options, 2a 'market sourced SAP (System Applications and Products) certified IT solution' and 2b 'market sourced non-SAP certified IT solution'. Cadent considered that this would deliver the business outcomes that it is seeking but concluded that the timeline to undertake a full procurement and build the solution would take over three years, which it considers to be too long.
- 3.11 Option 3 - Automation and reuse of IT (Preferred, £3.6m): This would automate existing manual processes and reuse and continually improve existing MOBs data capture and management systems. Within this option, Cadent explored four different sub-options, each with a different provider of such services. This is Cadent's preferred option as it addresses everything it needs in terms of increasing process efficiency through automation, improving its data quality on MOBs assets that can improve its investment decisions, and reducing the number of separate IT systems that will also improve efficiency. Finally, it can be delivered under one year, achieving positive outcomes faster than the other options considered.
- 3.12 Option 4 - Defer evolutionary solution (Minimum Viable Project (MVP), £4.7m): This option would undertake Option 3 in the next price control period. Cadent do not consider there to be many benefits to this option, as it requires approximately the same level of resource as undertaking the project now, but with the benefits being delivered later and risks continuing for longer.

Our Draft Determination on Cadent's optioneering

- 3.13 We can see there is a needs case for improving and automating Cadent's MOB data. In response to our Supplementary Question¹³, Cadent elaborated on its submission, explaining that Option 2 would achieve two core aims:
- enable it to comply with new engineering standards, improving the safety of customers living in MOB, and
 - digitalise MOB asset classes and intervention types in line with Health and Safe Executive Guidance.
- 3.14 These outcomes are primarily achieved by delivering the IT system that enables Cadent's operational teams to reduce risk in a more-effective way through more efficient asset investment interventions and automation of manual processes. Cadent believes this will enable its staff to make decisions faster and deliver greater value. However, Cadent acknowledges that it is difficult to understand the potential value of the reduction in risk, capital, or operation costs for a MOB system before all classes of MOB have been digitised.
- 3.15 We completely agree that keeping customers safe should be Cadent's top priority and as such we can see a case for Cadent investing in improving how it handles its MOB data. The different options it has presented have similar net present values, so on that basis undertaking the preferred solution now, rather than delaying until the next price control period appears sensible.

Our Draft Determination on efficient costs

- 3.16 Cadent is requesting £3.59m for its preferred option, to automate its existing processes and improve its data capture systems.
- 3.17 Cadent explained that the project would be delivered by its in-house delivery team, using a mix of internal and external staff at a cost of approximately £0.11m - £0.15m per month, plus another internal team with an estimate of £0.35m for the delivery of seven features. Finally, Cadent has estimated that it would cost approximately £0.46m to reuse an existing Field Data Capture solution, based on a similar initiative. Additionally, it would re-use existing IT elements, so would not need to undertake a tender process.

¹³ Supplementary Question 1: [Project 2] What is the cost benefit of the IT system solution?

- 3.18 In response to Supplementary Question 1, Cadent highlighted that there would be additional cost savings from terminating contracts and licenses for systems that will be made redundant, and the avoidance of future development spend with the associated vendors, amounting to £0.06m.
- 3.19 Whilst, as discussed in the needs and options section above, we can see the case for Cadent investing in this technology, this appears to be a business-as-usual project. Updates to standards are common throughout price control cycles and it is up to individual network companies to decide which voluntary standards to align to and when to align to them. All networks are funded via the RIIO-2 baseline allowances to ensure they have the resources required to keep their customers safe and this is a core element of being a network operator. **Our Draft Determination is therefore to reject providing additional funding for this project.**
- 3.20 **Table 2** below details Cadent's requested funding, our proposed reductions, if any, and our proposed allowances against each workstream.

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

Cadent proposal	Ofgem adjustments	Draft allowances
£3.59m	-£3.59m	£0m

4. Project 3: Streetworks Reinstatement Transformation

Section summary

This section outlines Cadent's re-opener application for its proposed Streetworks Reinstatement Transformation project and our assessment of the needs case, optioneering and costs. Based on this assessment we have formed our Draft Determination of what allowances, if any, should be added for this project.

Questions

Q3. Do you agree with our Draft Determination on Project 3?

Cadent's demonstration of the needs case

- 4.1 The Department for Transport (DfT) run a 'Street Manager' service, which must be used by highway authorities and utility companies to apply for street and road work permits, record inspections, and log reinstatements after work is completed¹⁴.
- 4.2 In its submission, Cadent explains that each year DfT updates the Street Manager API¹⁵ which handles data submissions from utility companies like Cadent. New specifications for the API are published around February and implemented around May, at which point the old API is discontinued¹⁶.
- 4.3 Cadent explains that the resources required to implement the API changes are exacerbated by the complexity of managing the consequential changes that its partner organisation needs to make to ensure that its data can feed through Cadent to Street Manager.
- 4.4 Cadent concludes that it needs additional investment to ensure that it can maintain compliance with the API specification, without which it would no longer be able to use the API as it would not have the resources to update it.
- 4.5 Cadent consider that investing in the solution would provide benefits to wider society in terms of providing better data to road users, which provides near-real-time updates for satellite navigation systems via up-to-date information from

¹⁴ [Plan and manage roadworks - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

¹⁵ Application Programming Interface

¹⁶ [API specification V4.0 - Plan and manage roadworks information \(department-for-transport-streetmanager.github.io\)](https://department-for-transport-streetmanager.github.io)

Street Manager. It should also minimise disruption to customers during street-work activities and improve reporting and operational efficiencies.

- 4.6 Conversely, Cadent explains that not investing would mean that it can no longer use the API. This would lead to additional operational costs for employees to manually enter data & inefficiencies in the regulatory reporting processes. It could also lead to additional costs in undertaking site-visits with little prior information, and potentially lead to Fixed Penalty Notices or prosecutions issues by Highway Authorities.

Our Draft Determination on Cadent's needs case

- 4.7 We can see the clear benefits that DfT's Street Manager service provides to Cadent's stakeholders and wider society, and the API appears to be both best practice and the best way of managing notifications to this service.

Cadent's optioneering

- 4.8 Cadent has split its optioneering into two sets of optioneering decisions, to address two different needs cases:
- Resourcing the assessment and implementation of API upgrades
 - Resourcing a solution that would facilitate new Start and Stop notice requirements and facilitate compliance with new performance-based inspection requirements.
- 4.9 Optioneering part 1 (funding API upgrades):
- Option 1: Do nothing (£0). Under this option Cadent would not allocate any resources to the API and hence would stop using the API once the next version is released and the current version is discontinued. This would mean it could not conduct streetwork activities.
 - Option 2: Replace API with manual processes (>£1m). Under this option Cadent would stop using the API, as per Option 1, but introduce manual processes raise, update and close permits and notices. Cadent consider that this would introduce significant additional resource requirements and potentially lead to reporting errors, as well as potentially increasing the chance of non-compliance which could lead to Fixed Penalty Notices or prosecutions.
 - Option 3: Maintain currency with Street Manager API version (£0.4m; preferred option). Under this option Cadent would continue to use and maintain the Street Manager API. Cadent states that this would require

additional resources but would be easy to use, robust and fault-tolerant, optimising its operations.

- Option 4: Delay until RIIO-3 (>£1m). This is effectively implementing Option 2 whilst waiting to implement Option 3. Cadent does not state any benefits to taking this approach.

4.10 Optioneering part 2 (funding a Work Management System (WMS) solution):

- Option A: Do nothing / continue with manual processes (£0). Cadent's Reinstatement Partners would continue to be sent and retrieve data through manual data extracts. This means Cadent would continue with manual processing, which it expects would require an additional 16 FTE days per year. This would enable the processing of notices but would have additional administration costs and the previously discussed issues with manual processing such as the risk of errors and not satisfactorily meeting deadlines.
- Option B: WMS solution - off the shelf (£2.1m; preferred option). Cadent would implement an off the shelf solution to simplify the collation and distribution of streetworks operational data. This would ensure that streetworks are available for all Reinstatement Partners in a consistent format and provide centralised reporting for a holistic view of performance across all of its networks. This would align with Cadent's strategy and standards, reduce the risk of non-compliance with Highway Authority regulations, reduce costs for smaller Reinstatement Partners and reduce the time and effort required to comply with its regulations.
- Option C: APIs for Reinstatement Partners (>£3m). This would be a Minimum Viable Product and would mean Cadent building and deploying bespoke APIs for each of its Reinstatement Partners. Cadent considers that this would help it deliver against its business objectives and comply with its regulatory requirements, but it would be complex to setup and would create significant additional resources to run.
- Option D: Delay until RIIO-3 (>£3m). Like Option 4 above, this would require Cadent to implement an interim solution (Option A) and then pay the full costs later anyway. This makes this option the least favourable option in terms of value for money.

4.11 Overall, Cadent considers that investing in new tools would enable it to legally comply with the New Road and Street Works Act 1991; improve customer/stakeholder experience via faster information improving re-instatement times; reduce GSoP2 payments where guaranteed standards of performance are

missed; reduce errors and overheads through automation; and improve the consistency and visibility of its data.

Our Draft Determination on Cadent's optioneering

- 4.12 On the optioneering for upgrades to the Street Manager API, we agree that Option 3 'maintaining currency with Street Manager API version' would provide the best value for money. Option 1, to do nothing, is not an option as maintaining the gas network is the core element of Cadent's business. Options 2 and 4 Moving to manual processing would cost significantly more than Option 3, whilst introducing unnecessary risks of non-compliance with the relevant regulations.
- 4.13 On the optioneering for a Work Management System, it is not clear how Cadent's preferred option, Option B, provides value for money for consumers. Option 1 'do nothing' would mean Cadent continues with manual processing, requiring approximately 16 FTE days per year (0.07 FTE) to process manual start stop notices, which we confirmed with Cadent¹⁷. We expect this type of administrative work could cost under £2,000 per year. This stands in stark contrast to Option 2 which is a deep technical option that Cadent expect would cost £2.1m. Whilst we appreciate the other non-monetised benefits to this workstream, we struggle to see a business case for investing £2.1m to save negligible amounts of resource. Cadent confirmed via the Supplementary Question process that there may be additional ongoing subscription costs in the next price control period¹⁸. To address Cadent's concerns with the reliability and timeliness of its reporting, it appears it would be orders of magnitude cheaper to put additional resources into improving its manual processing than to invest in an expensive IT system.

Our Draft Determination on efficient costs

- 4.14 We accept the needs case that Cadent has set out, and we appreciate its commitment to digitalisation and streamlining its business to increase efficiency. As set out in our assessment of the needs and optioneering above, and as set out in our assessment of Project 5 later in this document, we can see the case for Cadent investing in its API capabilities.

¹⁷ Supplementary Question 5: Is the reference to 16 FTE days the total number of days per year needed to staff the manual solution?

¹⁸ Supplementary Question 6: What are the ongoing costs for your preferred solution? Is this likely to re-appear for [RIIO-]GD3?

- 4.15 However, for this specific project we have concerns with the value-for-money that this project would be expected to achieve. In particular, funding for a Work Management Solution, as discussed in paragraph **4.13**, appears to be requesting significant levels of funding to address an issue that can be adequately managed using a far lower level of resource.
- 4.16 More importantly, this project appears to be a business-as-usual regulatory obligation that Cadent is required to meet and has been meeting for several years. Cadent is funded to meet such obligations via its baseline RIIO-2 allowances. This does not appear to be a new or unforeseen project and therefore does not eligible allowances via the re-opener mechanism.
- 4.17 **Our Draft Determination is therefore to reject additional funding for this project.**
- 4.18 **Table 3** below details Cadent’s requested funding, our proposed reductions, if any, and our proposed allowances against each workstream.

Table 3: Cadent's requested funding and our Draft Determination

Cadent proposal	Ofgem adjustments	Draft allowances
£2.48m	-£2.48m	£0m

5. Project 4: Network Emissions Management

Section summary

This section outlines Cadent's re-opener application for its proposed Network Emissions Management project and our assessment of the needs case, optioneering and costs. Based on this assessment we have formed our Draft Determination of what allowances, if any, should be added for this project.

Questions

Q4. Do you agree with our Draft Determination on Project 4?

Cadent's demonstration of the needs case

- 5.1 In its submission, Cadent states that in the past year, 2022/23, Cadent's shrinkage emissions totalled 1046 GWh, which resulted in approximately £54m of gas procurement that could have been avoided. Cadent also states that case studies show 4-5% of leaks account for 35-50% of emissions for a typical geographic region.
- 5.2 In addition to the environmental benefits of reducing methane emissions, Cadent considers that there are benefits in terms of safety, reduced workloads for its staff, and a reduction in volumes of phone calls from its customers to report leaks. However, Cadent has not valued these benefits due to the uncertainty around the scale of them.
- 5.3 In explaining the current process for calculating emissions from the mains network, Cadent explains that the current leakage model uses leakage rates from National Leakage Tests undertaken in 2002. This assumes that all mains of a similar type, operating at the same pressure, leak at the same rate. Cadent considers that this is a suitable method for determining an overall leakage picture for a given network, it does not provide the granular detail needed to drive asset management decisions.

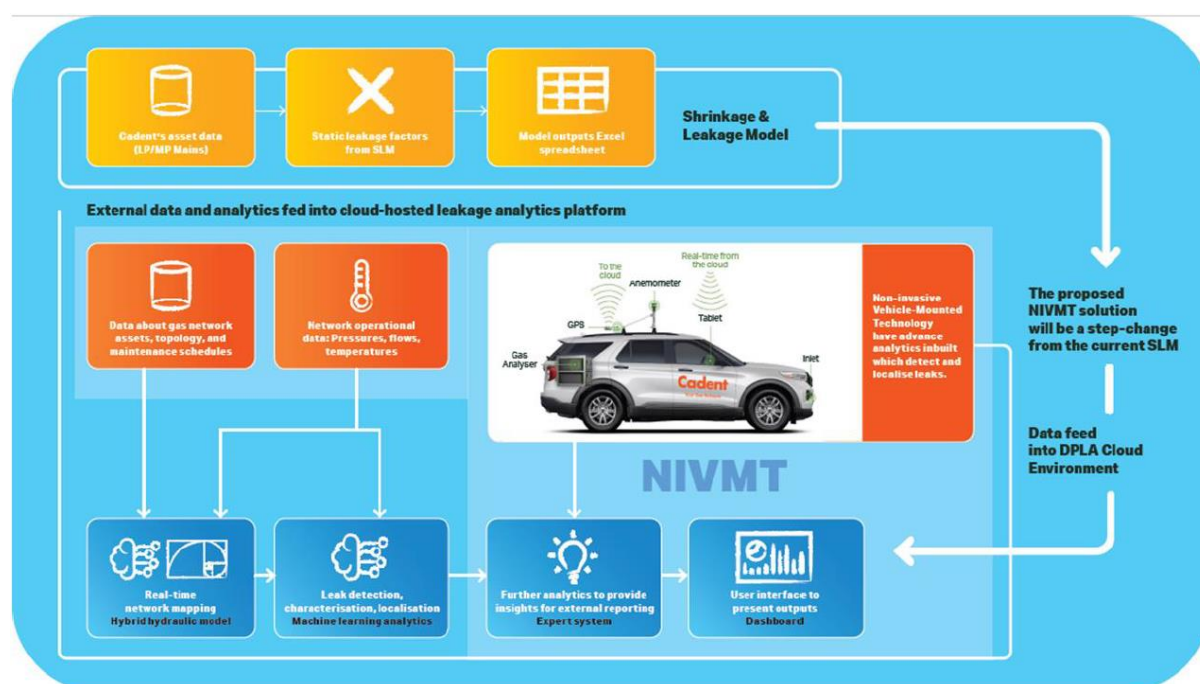
Our Draft Determination on Cadent's needs case

- 5.4 Reducing gas leaks is an incredibly important issue, as it reduces costs for consumers, reduces emissions that are harmful to the climate, and can improve customer safety and satisfaction. It is therefore in consumers interest to reduce emissions where it is economically rational to do so.

Cadent's optioneering

- 5.5 To determine the preferred option to deliver the capability required, Cadent evaluated three options against its overall business objectives and the technical requirements.
- 5.6 Option 1 (£0): no change from the current approved regulatory methodology. This would continue to meet the criteria for regulatory reporting but would not accurately quantify and locate leaks. Overall, this would provide no additional benefits or solutions to proactively tackling leaks.
- 5.7 Option 2 (£25.86m): expansion of leakage surveys. Cadent currently undertakes surveys on highest risk assets using two management procedures and identified by the Main Risk Prioritisation System (MRPS). This uses a methane concentration analyser to detect leaks with concentration of over 500ppm. The reports from these surveys are sent to the gas emergency number and a member of staff from Cadent must visit the identified leak in under one hour. Cadent considers this method to be limited in scope, as leaks can be missed if gas is not exiting directly above the pipe and this method does not allow Cadent to quantify the emission rate, as it only shows concentrations. Finally, expanding this method would increase the number of emergency visits, but not enable Cadent to proactively target the largest leaks.
- 5.8 Option 3 (£14.37m; preferred option): deploy technology for proactive management. Under this option, Cadent would deploy vehicle mounted technology that could measure leaks and use advanced machine learning data to identify biogenic methane sources. This would improve Cadent's ability to detect and measure leaks, and proactively tackle the largest leaks. Technology would be used to proactively discover leaks in the summer, rather than waiting for customers to report in the winter. This would help to optimise workloads, increase safety and reduce bills via reduced reactive repair costs. Cadent highlights that other companies have used this technology successfully internationally (Italgas and PG&E), but Cadent is the only company to have trialled it in the UK.
- 5.9 As part of its submission, Cadent has provided **Figure 1**, to show how the different elements of the project would feed into one another.

Figure 1: Diagram explaining Option 3



5.10 As a sub-option within Option 3, Cadent discussed in the submission that this investment could be deferred until RIIO-3. However, it concluded that this would provide no additional benefits, and would lead to the benefits being delayed by two years.

Our Draft Determination on Cadent's optioneering

5.11 We agree that Option 1, to make no changes, would not address the needs case.

5.12 It is also clear that Option 2 would not address the needs case put forwards by Cadent, as whilst it would increase the number of leaks found and addressed, it would not enable Cadent to actively identify the largest leaks. It would also cost over £10m more than Option 3.

5.13 Therefore, we agree with Cadent's optioneering, that Option 3 would be the right option to tackle the needs case it has identified.

Our Draft Determination on efficient costs

5.14 Cadent forecasts that Option 3 would cost £14.4m by the end of the RIIO-2 period (April 2026). Within this, the main costs would be vehicle purchases (£3.5m) and supplier service fees (£10.5m).

- 5.15 Cadent forecasts that the net present value (NPV) of this project would be approximately £2m by 2050, mainly due to saving 29,700 tCO₂e¹⁹ over that time frame. Cadent has accompanied its forecast with an explanation that Italgas have reduced the number of calls by 50% in 5 years, and fugitive emissions by 18% in approximately 3 years.
- 5.16 Whilst the NPV for this project is positive, we have some concerns that the NPV is low (net £2m on a £14.4m investment), and therefore small changes in the costs or benefits could cause the NPV to become negative. We asked a Supplementary Question to clarify this²⁰ and Cadent explained that further interventions are likely to be required on a 3 yearly cadence, but that it expects a programme conducting 100 proactive repairs per year over 4,000km of network would pay back within a year. However, this does not appear to be reflected in the cost benefit analysis. Additionally, the price per tCO₂e saved, which Cadent expects to be approximately £230 per tCO₂e, appears very high compared to the current UK Emissions Trading price of approximately £50²¹.
- 5.17 Finally, we have previously awarded funding to Cadent under the Strategic Innovation Fund (SIF) for its the Digital Platform for Leakage Analytics²² (DPLA) project, which aims to demonstrate a prototype for how data, analytics and innovative sensors can be used to identify, locate, and predict gas leaks in the gas distribution network. The DPLA system will enable Cadent colleagues to receive real-time alerts about critical leaks, more accurately analyse and model leakage data across the network and take quick and effective action.
- 5.18 This re-opener submission seems to directly overlap with the SIF-funded DPLA project. We asked a Supplementary Question²³ on this to understand if there is an overlap, and Cadent explained as part of its response that "Our bid does interact with the DPLA project in that it is a request to 'early implement' the technology for the surveillance of mains & services which will be used as an input into the

¹⁹ Tonne of carbon dioxide equivalent: a metric used to compare the emissions of various greenhouse gases with the same global warming potential as one tonne of carbon dioxide.

²⁰ SQ15: [on] p.103 the top bullet states that the NPV out to 2050 is £2m. Is this per year or total?

²¹ Intraday price of £53.46 as of 12:00 on 21 February 2024 [EUA Futures Pricing \(ice.com\)](https://www.ice.com/eua-futures-pricing)

²² [Ten trailblazing projects secure investment from Ofgem's Strategic Innovation Fund \(SIF\) as part of the drive to decarbonise the energy system at the lowest cost to consumers | Ofgem](#)

²³ SQ17: For Project 4, who is the supplier? And how does this project interact or overlap with the DPLA project funded under the Strategic Innovation Fund (SIF)?

DPLA model". However, we are concerned that there is not enough clear delineation between this project and the DPLA project. This means that there could potentially be an overlap in funding between this project and the DPLA project and providing funding at this stage may make it harder for Innovate UK²⁴ (UKRI) to determine whether Cadent has successfully met the objectives of its DPLA project.

5.19 Overall, we consider that action to tackle methane leaks is very important, but this project appears to have very marginal benefits compared to the significant upfront costs. This, combined with our concerns about the overlap between this project and the SIF-funded DPLA project, forms the basis of our decision that it would be prudent for Cadent to complete that project first before exploring whether this project is still worthwhile. **Our Draft Determination is therefore to reject providing additional funding for this project at this time.**

5.20 **Table 4** below details Cadent's requested funding, our proposed reductions, if any, and our proposed allowances against each workstream.

Table 4: Cadent's requested funding and our Draft Determination

Cadent proposal	Ofgem adjustments	Draft allowances
£14.4m	-£14.4m	£0m

²⁴ Innovate UK deliver the Strategic Innovation Fund in partnership with Ofgem, see [Ofgem's Strategic Innovation Fund \(SIF\): a brief guide – UKRI](#)

6. Project 5: Interoperability

Section summary

This section outlines Cadent's re-opener application for its proposed Interoperability project and our assessment of the needs case, optioneering and costs. Based on this assessment we have formed our Draft Determination of what allowances, if any, should be added for this project.

Questions

Q5. Do you agree with our Draft Determination on Project 5?

- 6.1 This project was initially submitted in the January 2023 re-opener window as part of a wider project aimed at improving Cadent's maturity with the Data Best Practice Guidance²⁵. Our Final Determination agreed with the other workstreams proposed by Cadent, but we concluded that Cadent had not provided sufficient evidence that this Interoperability workstream should be funded. In particular, we considered that Cadent had not provided sufficient evidence that its data users required the use of Application Programming Interfaces (APIs) to access Cadent data assets.
- 6.2 Cadent has re-submitted this workstream in this re-opener window with additional evidence, so for this document we are solely assessing whether the additional evidence provided by Cadent is sufficient to change the position we reached in our previous Final Determination.

Cadent's demonstration of the needs case and optioneering (additional to that assessed in previous re-opener)

- 6.3 In its submission, Cadent has focused its additional evidence in the use case for the interoperability workstream, both internal and external. Cadent plans that the interoperability work will enable it to:
- Seamlessly move Data Assets to flow from its Data Warehouse to its Open Data Portal, which will service external users, which requires API authoring and API end point publishing.
 - Automatically upload data to the Department for Transport's Street Manager Service, which manages and records road works.

²⁵ [Data Best Practice Guidance v1.pdf \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/data-best-practice-guidance-v1.pdf)

- Automatically contribute data to the National Underground Asset Register, a digital map of underground pipes and cables, in the future.
- Integrate the Priority Services Register with its internal ordering systems so that its engineers and partners can understand which of its customers have 'additional welfare needs'.
- Use integrations and operability standards and methods to enable its Network Emissions Management Solution (Project 4, assessed above).
- Better integrate with Line Search Before You Dig (LSBUD), a free service that provides utility asset maps for public use.
- Better integrate with external supply APIs such as Meteo Weather, Xoserve and the Ordinance Survey, with a standard way of managing distribution across Cadent.

6.4 Cadent has also provided a case study of how the interoperability project will enable it to work better with Great London Authority (GLA). Cadent has explained that its current process for sharing data with the GLA is via a File Transfer Protocol site, which requires Cadent to manually upload data files and the GLA to then download them manually. The data changes every three months, which means the data needs to be manually prepared every three months. Both Cadent and the GLA would like to move this process to an automated API, which would reduce the administrative overheads on both organisations as well as reducing errors and improving security.

Our Draft Determination on Cadent's needs case and optioneering (additional to that assessed in previous re-opener)

6.5 In our Final Determination for the previous re-opener²⁶, we explained in paragraph 2.5 that Cadent had not provided 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 and therefore improve Cadent's understanding of its stakeholders' requirements. If needed, Cadent could then use this evidence to

²⁶ [RIIO-2 Non-operational IT Capex Re-opener Final Determination and Direction: Cadent | Ofgem](#)

present a strong user needs case for investing in API development through its business plans for the next price control period.

- 6.6 Cadent has gathered the information requested and provided significant additional information to evidence its position that its project would provide significant benefits for numerous stakeholders, as well as provide synergies with its existing data projects such as its data portal.
- 6.7 Additionally, off the back of our previous consultation, we were separately contacted by a stakeholder who was interested in using Cadent's data for demand forecasting.
- 6.8 Overall, we are confident that Cadent has provided sufficient evidence to demonstrate the needs case for this project. We have not reassessed the optioneering as we were content with Cadent's preferred option (to build internal capability) in our previous assessment.

Our Draft Determination on efficient costs

- 6.9 Like the funding awarded in the previous round, Cadent has provided a clear breakdown of its proposed costs. The granular level of detail provided to us allowed us to assess whether the costs proposed by Cadent are efficient and represent good value for money. The information provided included a detailed breakdown, showing costs for individual line items such as the costs for each member of staff and specific licencing tools.
- 6.10 In particular, Cadent has demonstrated that it is using a significant level of internal resource and, using internal benchmarks, we have assessed that these are costed at efficient rates.
- 6.11 Given the additional information provided is showing a clear user need for this project, alongside efficient costs, **our Draft Determination is to propose to fund this project in full.**
- 6.12 **Table 5** below details Cadent's requested funding, our proposed reductions, if any, and our proposed allowances against each workstream.

Table 5: Cadent's requested funding and our Draft Determination

Cadent proposal	Ofgem adjustments	Draft allowances
£1.01m	£0	£1.01m

Appendices

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Appendix 1 – Draft Direction

Introductory note

Following our assessment of Cadent's submission, we have set out our Draft Determination. Any decision, for example to add additional allowances for a project, will be implemented into the Licensees licence via a direction. This Appendix provides a draft of the direction that will implement our Final Determination, as required by Special Condition 3.7.9. Upon consultation, and proper consideration of consultation responses, we intend to confirm the direction at the same time as setting out our Final Determination.

This direction is subject to responses to our Draft Determination. Any representations with respect to the Draft Determination or associated draft direction below must be made on or before 7 April 2024. These should be sent to Joe Draisey, Office of Gas and Electricity Markets, 10 S Colonnade, London, E14 4PU or by email to joe.draisey@ofgem.gov.uk.

Please see paragraphs 1.12 to 1.18 above for more information on responding, including on marking parts of responses that you consider confidential.

Draft Direction

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

A1.1 The Gas and Electricity Markets Authority ('the Authority') is issuing a direction under Special Condition 3.7.6 to amend Special Condition 3.7 Appendix 1 (Total Non-operational IT Capex Re-opener allowance).

A1.2 Special Condition 3.7 provides a re-opener mechanism by which the Licensee may seek additional funding during the RIIO-2 price control period for activities capable of improving the efficiency or performance of its Non-operational IT Capex.

A1.3 The Licensee applied under Special Condition 3.7.6 in September 2023, and the Authority publicly consulted on its Draft Determination between 7 March 2024 and 7 April 2024. This document included a draft of this direction, as required by Special Condition 3.7.12.

A1.4 The Authority received [x] non-confidential representation(s) and have placed these on [ofgem.gov.uk](https://www.ofgem.gov.uk). Having considered these representations, the Authority has decided to proceed with making this direction because [].

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 Final Determination document published on [xx/xx/xxxx].

A1.6 This direction will update Special Condition 3.7 Appendix 1, as shown in Table 1.

Table 1

Total Non-operational IT Capex Re-opener allowance (£m)

	2021/22	2022/23	2023/24	2024/25	2025/26	All years
Re-opener Allowance	0.098	0.316	0.614	0.915	0.759	2.702
	<u>0.268</u>	<u>0.961</u>	<u>0.6961</u>	<u>1.394</u>	<u>1.209</u>	<u>4.5281</u>

A1.7 It will also update the Special Condition 3.7 Appendix 2, as shown in Table 2, to remove unnecessary formatting.

Table 2

Non Operational IT Capex Price Control Deliverable (£m)

<u>Regulatory Year</u>								
NOITRE Output Delivery project date			2021/22	2022/23	2023/24	2024/25	2025/26	Total
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

A1.8 This direction will take effect immediately.

Yours sincerely,

[Name]

[Title]

For and on behalf of the Authority

Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e., a consultation.

4. With whom we will be sharing your personal data

We will not be sharing your personal data with other organisations.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for up to twelve months after the consultation process closes.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services

- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties.
- tell us your preferred frequency, content and format of our communications with you.
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

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