

## Reference

Consultation on the minded-to directions to return funding to gas consumers after the close down of the Hydrogen Village Trial

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



## Ofgem

Allan Rankine

## By Email:

Allan.rankine@ofgem.gov.uk

## Consultation on the minded-to directions to return funding to gas consumers after the close down of the Hydrogen Village Trial

I am writing to respond to Ofgem's consultation on returning funding to gas consumers after the close down of the Hydrogen Village Trials which was published on the 16 July 2024.

## Background

The UK government has previously set out an intention to gather the evidence needed to help decide whether to promote hydrogen as a means to decarbonise heat in buildings by 2026. This led to funding for Cadent through the GD2 Net Zero Pre-Construction and Small Net Zero Projects re-opener. However, in July 2023, the Department for Energy Security and Net Zero (DESNZ) announced that Whitby, Ellesmere Port was no longer being considered as a location for the trial, which was the project that received the funding. As a result of not continuing with the project, there are funds to be returned to consumers comprising:

- an incorrect price base to calculate the Approved Amount for Stage 2 funding; and
- underspend of Stage 2 project design work.

In the consultation Ofgem have raised 2 questions, the first of which relates to Cadent and the second NGN:

**Question 1 – Do you agree with or have any comments on our minded-to direction to return to gas consumers £0.54m of Cadent's HVT Stage 2 funding due to a funding price base error and a project underspend?**

## Cadent Gas Limited

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

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**Question 2 – Do you agree with or have any comments on our minded-to direction to return to gas consumers £0.27m of NGN's HVT Stage 2 funding due to a funding price base error and a project underspend?**

### **Response by Cadent**

We have only commented on Ofgem's first question relating to Cadent. In summary, we agree that £542,276.13 (in 18/19 prices) needs to be returned to Gas consumers and explain our calculations herewith.

#### Price base correction

The project direction set out Ofgem's funding approval of £3,383,576.50 (18/19 prices). National Gas Transmission administers the funding and paid Cadent a total of £3,786,222.10 (as they uplifted the contribution to reflect estimated 22/23 prices). However, our bid was in 22/23 prices rather than 18/19 prices, therefore Cadent have been overfunded and a repayment is required.

We agree that the overpayment is £516,050.85 (in 18/19 prices) which needs to be repaid to National Gas Transmission.

#### HVT Stage 2 project underspend

As submitted in our HVT Stage 2 Close Down report, we agree the underspend of £26,225.28 (18/19 prices) is correct.

#### Cadent HVT Stage 2 project minded-to direction to recover £0.54m for gas consumers

Overall, we agree that £542,276.13 needs to be returned to Gas consumers.

### **Further Considerations**

#### Inflation index true up

When National Gas Transmission calculated the uplift from 18/19 prices to 22/23 prices, this was based on an estimated inflation rate. Given the exceptionally high inflation experienced in 22/23, there is a true-up adjustment owed to Cadent. There are existing processes in place to correct for such true-ups so we would expect these to continue and agree there is no requirement to factor this into the calculation of the repayment due to National Gas Transmission to avoid any risk of double counting.



However, we would expect that the response from this consultation will confirm the actual amount due from National Gas Transmission for this true-up to provide a complete view of what the overall net position will be.

Given the nature of project closures, considerations should be placed on the timing around repayment due to National Gas Transmission for the price base correction and underspend, and the amounts due from National Gas Transmission in respect of the inflation true-up.

Price Control Financial Model (PCFM) & Payments

We understand Ofgem are now minded to direct for the settlement to be in early 2025/26 with no time value of money adjustment in the PCFM and will issue a direction confirming the final nominal amounts to be settled after the Mar-25 inflation data is available.

When there is a transfer of funds to settle this project, it would make sense for both the repayment to and from National Gas Transmission to take place on the same day.

Yours sincerely

Stuart Easterbrook  
Head of Net Zero Energy Frameworks, Cadent