



CUSTOMER CHALLENGE GROUP (ISG role) REPORT FOR OFGEM

In response to Ofgem Call for Evidence
Regarding Cadent's RIIO-3 Business Plan Submission December 2024
7th February 2025

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1 Purpose of this Report

This report has been produced by the Customer Challenge Group (CCG) for Cadent, which as part of its remit, performs the role of the Independent Stakeholder Group as mandated by Ofgem from July 2024 onwards. The report constitutes the CCG's response to Ofgem's Call for Evidence on Cadent's RIIO3 Business Plan and has been prepared to aid Ofgem in evaluating Cadent's plan covering the period 2026-2030.

This report represents the CCG's independent assessment of how we believe the plan has addressed customer and stakeholder needs. It is not intended as an assessment of whether the plan meets what the regulator may or may not be hoping for, and is limited by our independent perspective, being outside of both Cadent and Ofgem. All conclusions are based on what we have seen or heard, and informed by the wide and varied experiences across the CCG. Our conclusions are also informed by more detailed conversations in both our 'Sustainability Challenge Group' (SCG) and our smaller 'buddy groups' that put together CCG subject matter experts with the Cadent internal experts, to deep dive on particular topics. These buddy groups started at different times through the year, but will be an important part of our ongoing CCG relationship with Cadent.

Financial matters including equity, debt and funding, and cyber security, are outside the scope of the ISG and are therefore not considered in this report. Equally, any potential areas that Ofgem did not request in the business plan, such as transition to hydrogen or potential decommissioning, are beyond the scope of this report, though those aspects and others continue to be part of the CCG's wider conversations with Cadent, as they are important aspects of the company's operating environment.

The Cadent CCG is made up of 9 expert members, chaired by Angela Love, and the SCG has 3 additional sustainability experts and is chaired by CCG member Leanne Case. Details can be found in the Appendix of this document and in the ISG Chair's Statement, which was submitted along with the Business Plan.

2 Executive Summary

Over the last 12 months, this CCG have conducted detailed scrutiny and challenge over many of the key areas that have driven Cadent's business plan submission. Cadent has welcomed this scrutiny, openly sharing information, responding to requests, and fully engaging in debate with us over potential options and implications. As a result we feel confident that the resulting Business Plan represents the best balance of meeting the needs of the wide variety of customers and stakeholders Cadent serves, within the current policy framework.

- **This is a high quality plan**, which robustly builds from the **strong foundation** laid throughout RII02. In the CCG's view, Cadent has led the sector in many aspects of the plan and demonstrated that leadership to us.
- In this period, we see Cadent continuing to push further and find new areas to lead change, most notably on utilisation of digital technologies **to ambitiously proactively address leakage**, and in further **supporting vulnerable customers more effectively** with their drive to deliver more impact from less funding. In addition we welcome Cadent's push to expand collaborative streetworks, given its benefits for increased productive reduced disruption and the environment.
- We fully support these areas as priorities, being in the **best interests of society and customers overall**, and feel Cadent should be commended for their deeply ingrained desire to support vulnerable customers whilst also trying to keep bills as low as possible for all customers – the CCG has seen this desire across the company including at Board level.
- This is reflective of Cadent's culture of **customer-focussed rigour** (rooted in a strong insight programme), and drive to always '**do the right thing**' for their customers.

Our challenges throughout have largely been around the evidence base for assertions and plans, the triangulation of stakeholder and customer insights to drive decisions, and providing a clear narrative of benefits and outcomes within each strategy. We have also identified several areas of on-going challenge and discussion, which we will continue to focus on in 2025. These include areas such as integrating stakeholder management and insight across the business, more robust and exhaustive digitalisation and data strategy, integrating digitalisation with innovation, more strategic workforce planning, deeper stakeholder engagement on sustainability, and contributing to GB whole systems thinking.

We however do wish to highlight the impact of policy uncertainty on this business plan. Factors such as customers disconnecting from gas, or accelerated depreciation, would have massive bill impacts for a shrinking consumer base and are likely to disproportionately affect customers who are less well off. Equally, in the transition to net zero, considering options to repurpose the network (for example for hydrogen) and/or maintain supply to certain types of commercial customers needing the 'heat' that only gas can supply, could help make use of existing investment in the network. We strongly support Cadent building the right capabilities to enable these challenges to be addressed, for example through their Future Energy Explorer platform. Whilst this is beyond the scope of the current Business Plan, we recognise that Cadent share the CCG's strong concerns over this policy uncertainty and possible impacts to consumers and businesses, and we will continue to both support and challenge their development of potential solutions ahead of Government and regulator policy development, and their constructive engagement in the debate.

We would also note that due to the ISG role not being confirmed by Ofgem until July 2024, we proportionately focussed in the time available on key areas of the business plan for customer impact, and for some areas we will get into more depth in 2025. Most importantly, we will continue our scrutiny of business performance against the business plan commitments, and ensure we add sufficient external challenge and ideas to support Cadent's continued delivery and evolution.

3 Customer and Stakeholder Influence

The CCG believes that this plan is **grounded in rigorous customer and stakeholder insight**, and a cultural focus on customer needs, and this has been our experience throughout 2024. The CCG's involvement and challenge for customer and stakeholder insight was in place right from the start, with Cadent keen to share insight and gain our input.

The primary areas of debate revolved around:

- The **range of stakeholders being engaged with**, and how – this was demonstrated as being wide-ranging and mapped in various ways, but the CCG raised two key 'gaps': Firstly 'The media' (as people to listen to, not just talk to), and secondly overtly green and sustainable organisations including NGOs. Cadent responded that they have had difficulty engaging green NGOs for a variety of reasons, and hence their investment in the Sustainability Challenge Group alongside this CCG. In terms of media, they have expanded their engagement, brought on-board PR firms, and built strong relationships with trade media, and the CCG would encourage further work 'listening' to these media partners as a stakeholder not just a channel.
- Identifying and tracking **the impact of insight on changing plans** over time. Cadent responded that they were developing further operational engagement sessions to identify implications and decisions from the customer insight work.

The 'buddy group' we established for stakeholder engagement and customer insight was the first one to be established, and aimed to provide 'deep dive' challenge around the detailed methodologies being used. This group was largely focussed on the customer insight programme, which is centralised, while stakeholder engagement is decentralised across the relevant teams.

Whilst the research programme was already underway, there was sufficient time for meaningful discussion about the overall approach to research, ensuring it delivered **value to the business**, and detailed input to most of the major pieces of research. The discussions were constructive, with the buddy group acting as sounding board, not just 'challengers'. The Cadent team told us that they particularly valued the work on "what good looks like" for research in this sector, and the buddies' detailed reviews of study design. Cadent carefully logged all our feedback and responded to every item with changes, or rationale for no change, which we found to be a collaborative and productive process.

We agreed with Cadent's approach to **prioritise research** where there were new things to be learnt, where options existed, and where consumers could understand the issues. Across the primary research programmes (Willingness to Pay, Targeted 'options' Research, Affordability and Acceptance testing, and joint GDN stakeholder research), we further emphasised that the research must be relevant to the business planning decisions Cadent was facing, and needed to be designed to elicit meaningful responses from respondents. Cadent followed good practice in developing research over several stages, building on learnings, and carefully considering stimulus and use of contextual materials, as well as study and questionnaire design.

The key requirement here is not just to understand what customers need, but to be able to **triangulate these needs with those of other diverse stakeholder groups, and all other factors**, from safety to regulation, to cost. Consumers, with their limited understanding of the sector, can inform but not drive the business plan and therefore the CCG were keen to push Cadent to triangulate the insight. The CCG wanted to ensure that Cadent did not adopt a "You said, We did" approach, which lacks the rigour of triangulation. As reflected in Cadent's submitted Decision Log (Business Plan Appendix 11) Cadent worked hard to triangulate effectively. Moving into 2025 we will be looking to see that this more formal

triangulation and logging of insights and decisions becomes a standard business practice on an on-going basis, as we believe this is indeed how Cadent make their decisions.

Overall we find that the **customer insight** carried out is a very robust, and a valid underpinning of the business plan, and that it genuinely drives decision-making within the organisation to an appropriate extent.

Stakeholder engagement is widespread and comprehensive, but has moved away from centralised sharing or co-ordination. Whilst we agree that the relationships need to be owned by the appropriate operational team, the CCG buddies have suggested that a more co-ordinated approach to consolidating feedback and stakeholder understanding into a 'customer and stakeholder insight hub' could perhaps be immensely helpful for Cadent in future.

Beyond that, we would be looking to see how **insight is applied** to operational business challenges, such as the use of personas in data and digitalisation strategy, and how insight can help diagnose customer experience challenges especially for the 'worst served' which Cadent have rightly highlighted as a key area for investigation.

4 Challenges by Outcome

4.1 Safe Secure and Resilient Supplies

This was a common thread in every CCG meeting and the buddy group meetings, which focused on particular key topic areas such as Regulation, Streetworks, and Workforce Planning. The focus areas that we discussed included:

- **Existing mains replacement programme** delivery and challenges
- **Potential impact of major future changes**, such as decommissioning and/or hydrogen blending
- **Network resilience to climate and environmental impacts**, including the implications of climate change on operating and maintaining assets
- **Workforce and the culture** required for longer term changes, for example business digitalisation and possibly managing a reducing network
- **Industry context**, including policy, regulation and changes such as the recent establishment of the NESO
- **Impact of digitalisation** on all of the above

We raised many challenges around these areas, requesting more data, further deep dive sessions, or particular Cadent participants to attend CCG meetings to provide more specific or wider insights (this sometimes involved attendance of Executive team members). In most cases the challenges most relevant to the business plan were resolved with this extra insight/more senior level engagement, or within the deep dive buddy groups, but some challenges are broader and on-going for us to return to in 2025, when greater time can be taken.

In terms of **regulation & policy**, we found Cadent keen to discuss these issues and the company was receptive to the group's ability to draw on perspectives from outside of the company and from other industries. We raised challenges that were fed into Cadent's thinking, and sense-checked their priorities. These included preparing for the need for business customers to have continuing access to the gas

network, planning for future scenarios and the need for area-based solutions (which Cadent's new Future Energy Explorer (their new digital tool) could deliver well on), going broader and deeper with local stakeholders to listen, inform and build support, working with the new NESO to help it develop strong understanding of the technical, commercial and domestic roles of GDNs, and building a strong united voice for gas through the Future Energy Networks group. We also reviewed the proposed Net Zero collaboration incentive, and reluctantly agreed with Cadent's decision not to pursue this as a financial incentive due to Ofgem feedback, whilst strongly still encouraging action and engagement with all relevant governmental and sector bodies.

Safety appeared as a cross cutting theme across the buddy areas, and safety-related issues featured in most areas of discussion. For example streetworks discussions included a focus on pedestrian safety and that of road users, and the CO education programme was scrutinised within the vulnerability strategy. In all discussions, we were reassured that safety remains paramount to Cadent; they have a very positive safety and reliability record, resource dedicated to it, and behavioural training programmes and a safety culture established with the workforce. Our primary challenge was to consider expanding CO-safety to gas safety more broadly, for example around escapes, and appliances, and to consider how Cadent could utilise their engineers to engage and educate the general public more informally. We note and support Cadent including, in their business plan, commitments to develop a new Service Beyond the Meter blueprint for how customers can be engaged and supported. We would also note that in terms of potential for hydrogen, Cadent have put together a significant body of safety evidence for the HSE to review, continuing the company's focus on safety.

The CCG had **skills and workforce planning** as a key focus area, given their view of employees, potential employees and Unions as key Cadent stakeholders. The CCG acknowledges that Cadent are facing a number of workforce resilience issues, including the need to attract, retain and motivate its people, in particular in light of the Government's net zero agenda and the continued question over the longevity of gas in the GB energy mix. There are a number of strong initiatives already in place or in development, and Cadent are well engaged with external stakeholders such as the National Skills Academy for Gas, who all bring in external perspectives and challenge. Our challenge for further development was to see this united into a clearer strategy, which links the identified skills, capability and workforce resilience issues, with the benefits expected (e.g. increased retention, engagement, ideas and innovation); turning actions into outcomes.

With regard to **Streetworks**, we found that Cadent are sensitive to the opportunity to expand engagement with 'transient stakeholders', who may live, work or have activities close to streetworks, or who transit sites. We were impressed by the work that Cadent is already doing, in particular around the digital tool that they have developed to identify and communicate with customers who will be impacted by the mains replacement programme and in modelling the complexity of work needed. Cadent are using this tool to determine priorities for their work and in understanding, in advance, any issues that their teams may face on the ground. We encouraged the company to see streetworks as both important to the company's general reputation and a way of interacting with the general public/consumers, potentially picking up whether their customers have vulnerabilities (a focus which the company had already started).

Further challenges and discussions were around data and digitalisation opportunities, including externally for example with electricity networks, and how to extend the collaborative streetworks initiative from London to other areas – a priority Cadent had already set and which the CCG fully support as vital to the interests of customers and the UK more broadly, given its benefits for increased productivity, reduced disruption, and the environment. Through discussions with the buddies Cadent felt they were able to present a much clearer benefits case around the proposed extension of collaborative streetworks and

undertook wider engagement activities with Local Authorities who in turn wrote letters of support for the Cadent business plan proposal.

Overall we are confident that the commitments made in Cadent's business plan are the right solution to their mandate. Firstly, the **Advanced Leakage Intervention Programme** is ambitious, but very much in the interest of customers in both intent and the choices made for delivery. Insight shows customers want businesses to take the big actions for the environment, rather than put emphasis on customer behaviour change, and given Cadent have already pushed ahead on most of the potential 'wins' around their own operational footprint (buildings, EVs etc.) it feels imperative that they tackle the biggest environmental impact which is leakage of the gas from their pipes. Secondly, Cadent's choice of which **major resilience projects** to pursue was decided through a suitably strategic approach, aiming for projects that have the greatest impact on the widest factors – which is an example of how Cadent always aim to 'do the right thing' not necessarily the easiest or quickest. Although we have not looked at each project in detail, we are reassured by the overall approach, particularly their risk modelling, and believe this gives Cadent the capability to do more as and when circumstances and funding permit.

4.2 Infrastructure for Net Zero Transition

Infrastructure for Net Zero Transition was a common theme throughout the CCG meetings, as well as being a particular focus of the Sustainability Challenge Group (SCG). The company was particularly focused on **leakage** (moving from the current modelling approach, to direct measurement, to improve outcomes), the potential to facilitate greater **biomethane** production capacity on the network, and the **potential for hydrogen** (potential reuse of the existing network assets and people to support a major shift towards net zero in the UK). The latter is not part of this business plan but does provide important context. Cadent are well aware that a methane gas network cannot continue as it is indefinitely, but they have chosen to take a proactive approach to working through how they can contribute to 'net zero UK'.

Key challenges and Cadent responses included:

- **Collaboration:** for example around leakage e.g. smart metering, supplier and shipper requirements, mapping information on existing network, and broader industry collaboration including with other GDNs. We challenged that net zero collaboration needs to still be pushed forward, even if a financial incentive is not part of RIIO3, and we believe Cadent are doing so.
- **Longer term scenario planning:** We reflected that in future decades, not having hydrogen or any other gas as a replacement for methane in the current network would waste the historic outlay and current investment in upgrading the network and create significant social inequality for those 'left behind', when those who can afford to switch to electricity and leave those who cannot to foot the costs of the gas network. We also encouraged Cadent to consider how future scenarios would impact the activities and structure of the company. However, given the current policy uncertainty, and the exclusion of Hydrogen and de-commissioning from the RIIO3 planning process, we limited ourselves to encouraging Cadent to look at developing longer term scenarios and how those could or should affect business structure and priorities today. This is something we will carry forward into 2025 discussions. In the meantime, we encouraged Cadent to make decisions on the basis of prioritising 'no regret' actions they need to do anyway, and developing solutions (e.g. for leakage) that could be applied regardless of which gas is being transported, and were reassured by Cadent's responses that they are doing so.
- **Leverage customer understanding:** We reflected that Cadent could further utilise their understanding into the behavioural and attitudinal barriers consumers have to Net Zero

transition ideas, based on their thorough customer research. We agree with Cadent's desire to understand both bill-paying customers today, and young people as future energy consumers. Their published work on Energy Diaries is a really good start in this space, which we commend.

The Sustainability Challenge Group (SCG), with their more specific expertise, got into much greater detail and scrutiny over Cadent's planned actions and ambitions. They recognised that Cadent performs well across sustainability targets, including the three external benchmarks they work to and are independently verified against: Global Real Estate Sustainability Benchmark (GRESB), Morgan Stanley Capital Investment (MSCI) and Sustainalytics.

They pursued deeper discussion and challenge on shrinkage/leakage, innovation, energy transition, and climate resilience. Key challenges were:

- **Shrinkage/Leakage:** Cadent established an ambitious target for reducing leakage within their network. The SCG supported a proactive approach to this goal, but sought clearer rationale rooted in robust analysis, so provided a detailed challenge to the business case, modelling and the decision making processes underpinning Cadent's strategy, so as to improve transparency, best practice alignment, and ability to truly drive a step change for the company. In particular, the SCG sought robust and realistic detail underneath this target, and a greater evaluation of cost alternatives given the long term use of the network is uncertain. Additionally, the SCG challenged Cadent to broaden their perspective by considering the potential positive and negative impacts on a diverse range of stakeholders, including consumers, of their plans to tackle leakage.
- **Innovation** was a topic of significance for the discussions on sustainability, and the group gave Cadent two strategic challenges: firstly, how does Cadent determine which innovations to implement to reduce environmental impact, increase climate resilience, and improve efficiency? Secondly, how does Cadent develop its innovation pipeline - specifically to understand the extent of local business engagement, the economic impact, and whether it was being sufficiently proactive in the inclusion of diverse business?
- **Energy transition** – the SCG firstly challenged Cadent over whether more could or should be done to connect **Biomethane** producers to the network, and secondly challenged Cadent to broaden the range of stakeholders and do more to **share insight and learning** within the industry, whilst recognising the thought leadership efforts and report publications that already demonstrated Cadent's commitment to this area.

Cadent worked well with the challenges the SCG brought. Across all challenges above, where we questioned the level of ambition, Cadent were spurred on to look at benchmarks across other industries and this shaped their thinking. We saw changes reflected both in the metrics chosen for the sustainability strategy, specifically relating to the emissions reduction target, and in the rationale, narrative and phasing of the strategy and its implementation.

Adjustments were made to Cadent's leakage reduction targets and the phasing of their initiatives, such as their innovation projects looking into data driven leakage detection and analytics leading to more accurate and targeted action. The emphasis on stakeholder engagement was refined and is now more pronounced within the Environmental Action Plan (EAP). In terms of biomethane connections, we support Cadent's inclusion of a commitment in principle, and SCG will revisit this in more depth in 2025 to explore the detail under this commitment.

Ultimately, these adaptations have culminated in a more robust framework that effectively tackles concerns consumers have expressed (across a range of research studies) around costs, as well as environmental accountability.

Given Cadent have had difficulty engaging with “green lobby” organisations e.g. Greenpeace, Green Alliance, WWF for a variety of reasons, the SCG has played a proxy role challenging the company hard in relation to sustainability and the environment on behalf of these stakeholders, and we commend Cadent for being willing to hear and take on the challenges detailed above.

4.3 High Quality Service

The CCG spent considerable time getting to grips with what the customer service and experience is like for all customers, as well as ‘deep diving’ into provision for vulnerable customers. Overall we agree with Cadent’s commitments and targets under High Quality of Service, and this conclusion comes following some significant periods of scrutiny and challenge, all of which Cadent have worked well with us to resolve, though some continue to be development areas for 2025 and beyond.

In terms of **customer service** we explored some depth around customer performance, improvements and challenges in customer journeys, differences by region, complaints triggers and resolutions, customer communications, and methods of measurement. We noted the limited usefulness of C-Sat scores in identifying problems and driving change, given current high scores, lack of correlation between those and GSOPs, and difficulty correlating to more diagnostic aspects of customer service. Given Ofgem were not minded to review measures, we focussed on how Cadent could work ‘beyond the measures’ and diagnose what’s working well and less well, to drive improvement. Cadent were supportive of this challenge and readily engaged with the CCG on the art of the possible. We particularly encouraged Cadent to understand the drivers of their scores’ improvements, transfer knowledge effectively between regions, and focus on improving C-Sat scores for **Planned Works**. Although all regions have C-Sat scores of over 8.5 out of 10 for Planned Works, measuring well relative to other GDNS, these are currently Cadent’s lowest C-Sat scores. Cadent seemed to have a good understanding that the two main challenges are timeliness (particularly when unexpected events, subsurface issues, etc. cause delays) and communication (timely, precise and accurate information about works). The CCG welcomed Cadent’s new focus on ‘**worst served customers**’ to identify the next tier of issues that could be resolved.

Scores for all customer journeys are lowest in dense urban regions particularly with many **multiple occupancy buildings (MOBs)**, and we appreciate that Cadent is putting considerable effort into improving performance particularly in North London, specifically for unplanned interruptions. We recognise and support the wish to have consistency across MOB and non-MOBs targets, but agree there is not yet a conclusion on how best to deal with the wide range of complex circumstances within MOBs – they are not one ‘group’ but more a ‘catch all’ for anything that isn’t a single-occupancy building.

The CCG challenged within the **data and digitalisation strategy** what the impact on an improved digital offering would mean for customer service. We would expect digitalisation efforts to have benefits for customers for example in timeliness, communication, reduced disruption etc. This is something Cadent have taken on board for future development of their strategy, and we agree with them that many of the solutions to improve customer service will require digital enablers.

For Cadent’s approach to **vulnerability** the CCG we had several discussions around existing and future plans, and explored the overall context such as use of the PSR, definitions of vulnerability, communications, and roles of frontline staff. However, once the buddy group was established, the CCG experts within that group went into considerable detail to challenge and focus the strategy, for example around Cadent’s role and use of the priority service register. The buddies and the CCG also pushed to see the evidence base to be presented in the Business Plan and Vulnerability Strategy to demonstrate Cadent’s strong claim that they are sector leaders in vulnerability.

Through several stages of challenge and discussion, Cadent responded positively, backing up claims with evidence and sharpening to a much clearer narrative. In particular, they developed and deepened the case for Centres for Warmth further, focusing more on the services provided, impact achieved and future potential of the Centres, which we believe deliver highly targeted, community focused, impactful services. We also noted that there was acceptance by the company around the strategic role Cadent and the other GDNs have around low-income households, although uncertainty around the shape and pace of any emerging policy framework on low carbon heating transition makes it difficult to progress through GD3 Business Plan proposals.

The stakeholder engagement around vulnerability undertaken by the company has, we believe, been very broad and Cadent have introduced new ways of engaging that clearly add to the quality of stakeholder insight. In particular, their Vulnerability Conference and their activity to bi-annually convene the Centres for Warmth partners provides an opportunity to gain much greater depth and context of the views of stakeholders. Cadent has not always found it easy to condense and deploy the evidence from that engagement into the space constraints of business plan proposals, but it evidently informs and conditions the proposals that they include in the plan. We also discussed the potential for “funded bias” in the feedback from those stakeholders, given that they are financially supported by Cadent, but the CCG buddies are confident that any bias is balanced by breadth of engagement and strategic importance.

Vulnerability is clearly an area where both Cadent and the CCG felt strongly and wanted to ‘put the work in’ to get the strategy to an even better place, recognising the convincing leadership position Cadent already have. The CCG believe this area is a strong reflection of Cadent’s values, a source of pride for employees, and a real opportunity to leverage the local and personal nature of Cadent’s interactions with the public. We feel this commitment is something that should be commended, and sets Cadent apart from other large organisations, amongst their peers and beyond.

4.4 Efficiency and Value for Money

These issues were introduced to the CCG by Cadent early on, so throughout all CCG conversations we have been able to have a realistic view of the challenges for Cadent in driving efficiency and maintaining value for money, and understand the key factors that shape this organisation’s efficiency and costs.

We would also commend Cadent on their considerable focus on **engaging customers** in the difficult area of assessing value for money, as evidenced through their extensive research programme. However, this remains an area that is very difficult for customers to assess, firstly as it is a hidden part of their bill, and secondly because they have very little understanding of the network, the UK energy system, the system requirements for the future (e.g. digitalisation and innovation) or how those things are financed. Therefore largely this area of the plan is led more by stakeholders and experts, including the CCG, who can push and challenge Cadent from a more informed point of view.

Key challenges we have raised throughout these discussions include encouraging the more detailed articulation of decommissioning risks in their risk register (further to existing inclusions), benchmarking efficiency improvements against not just GDNs but other infrastructure sectors, and considering the business model in totality for the long term - determining the right balance for what Cadent do internally vs what they outsource, given the capabilities that might be needed for alternative futures (e.g. decommissioning or hydrogen). Structural change necessarily can drive both costs and efficiencies, and the CCG feel that over the coming period there may be significant impacts that will need to be considered, and the shape of the business in 10 years is unlikely to be the same as today. Cadent took that on board and this will be an ongoing area of discussion with the CCG over the coming years.

However, the pertinent **drivers of efficiency and value for money** through the GD3 period will really depend on how well Cadent can leverage data and digitalisation to innovate and transform operations and performance. Efficiency and value for money, whilst an important outcome, cannot be separated from effectiveness – which in this case means effectiveness in delivering the other three outcomes.

For Cadent, **digitalisation** is an omnipresent horizontal which cuts across all of the various business units, including front-end and back-end (internal) digital infrastructure. Every investment in data and digitalisation is driven by a current or future capability centric challenge, which requires coordination of input across all of the Cadent business units. Data and digitalisation allows the company to better understand its customers and enhance its responsiveness to meeting their dynamic needs. Along with building the technical data and digitalisation capability, Cadent will need to ensure its trusted data practices drive the secure and responsible use of data.

The CCG feel that Cadent have started on this path, and begun to put the building blocks in place, with some clearly identifiable early wins such as the Leakage platform and the Future Energy Explorer platform, both of which are capability-centric challenges and have a huge amount to offer.

It is the CCG's view that all of Cadent's capability centric challenges should be analysed holistically, by the Data & Digitalisation and Smarter Networks (Innovation) teams together, to identify technology readiness levels and service availability to meet these clearly justified D&D enabled capabilities. On completion of this roadmap Cadent should be able to validate or amend current plans and create a sequence of investments, which ensure the digital infrastructure readiness of the business, and that they have a clear understanding of what support they will require for supply chain partners and what will be delegated to the internal innovation portfolio. Key challenges from that roadmap will include digital infrastructure requirements, internal culture, roles and responsibilities, supply chain 'kite' marking for digital security, stakeholder network and management, and cyber security (the latter of which sits outside ISG remit).

The CCG have consistently confirmed the importance of data and digitalisation transformation with internal leadership and the Board, and have received assurances that it is indeed a priority for the business. Key building blocks already in place include a target architecture now developed for GD3, within which the CCG has encouraged a focus on enablers across other GD3 outcomes. Cadent are also working with several data agencies to better understand customer data granularity and value, to better consider potential application, and have done a stakeholder survey to determine the data needs of various stakeholders.

Outstanding challenges remain around how fast and deep this digital transformation can be delivered, which critical challenges and outcomes will be prioritised, and with what resources and governance. The CCG look forward to continuing to see and scrutinise the plans as they evolve, building on foundations already laid by Cadent started, and will continue to encourage swift and rigorous development in this space to benefit not just efficiency and value for money, but the many and varied needs of customers and stakeholders.

Innovation is run by the Smart Networks team within Cadent, who were open in sharing an overview of their remit and plans. However, although this was discussed with the main CCG in headline terms, the 'deep dive' of buddy involvement only started very late in the process, therefore this is an area where the CCG will focus more in the future to support more substantive change.

Cadent have already been able to reassure the CCG that Environmental innovation will focus on innovation in leakage, with the Advanced Leakage Detection Digital Platform already under development and key technologies and partners identified. In the Business Plan Cadent has proposed innovation investments in this leakage platform as well as an on-going commitment to Cadent's Global Technology Conference forum to surface new ideas and technologies and engage with current and potential partners.

The CCG support and commend both of these initiatives, and in addition encourage Cadent's innovation team to work closely with their data and digitalisation team to develop a customer-centric digital-first approach to innovation. The CCG believe digitalisation to be a key enabler of enhanced service, cost reduction and improved planning, all of which are to the benefit of customers and stakeholders. An initial four 'customer type' digital personae have been created. However, we would like to see development of more detailed '**digital segment personae**' depicting the wide variety of customers and stakeholders.; This would be based on identifying and grouping varying customers needs into a more targeted needs-based segmentation approach, and could be useful to drive engagement and change within the business and with supply chain. A more detailed resource plan across different partners, mechanisms and capabilities would also help this innovation approach, as would a more strategic approach to wider and deeper stakeholder engagement across all interested parties in the energy sector.

5 Reviewing Impact on Bills and UK Growth

This is two issues in one – the impact on customer bills, and the relevance of Cadent's business/operation to UK economic growth. On the former, the CCG were involved in 'Willingness to Pay' and 'Affordability and Acceptance' research (see Key Topic – Stakeholder Engagement), and Cadent kept us informed throughout the year of their potential RIIO3 cost scenarios. Ofgem had advised that 'Finance aspects' were outside of the ISG remit, however the ISGs were asked to consider the impact on consumer bills that the plan the company was putting forward would mean, and in October Cadent took us through this, including looking at the options put forward by Ofgem.

Cadent outlined their commitment to **keeping bills affordable for consumers**, stating that through their work with vulnerable customers, they see that the cost of living crisis is still impacting many of their customers. Cadent explained that their investment and financing proposals would increase customer bills by £15/annum, an increase of 9.6% over RIIO2 bills. This would take average bills from £157 at the end of RIIO2 to £172 on average through RIIO3. Key CCG discussion points with Cadent included:

- The company explained and demonstrated to the CCG what the **implications of debt financing** could mean for customers' bills, as well as highlighting that the figures presented were based on customer numbers being retained at 11million. Obviously if customers start to move to other forms of energy for heating, then the impact of lower numbers of customers consuming gas will have a corresponding impact on the bills of those remaining customers who will have to fund Cadent's underlying costs.
- On the question of **accelerated depreciated investment**, Cadent provided examples of what this could mean for customer bills and the CCG members were concerned with the potential implications not just on vulnerable customers but all customers, including industrial and commercial (which can impact on UK companies' competitiveness in international markets). Cadent explained that they had been consulting with customers, engaging with those customers who are "most informed" to get their views (previously engaged customers and commercial customers). The CCG were concerned and challenged Cadent that customers could be facing two crises at the same time – accelerated depreciation and dwindling customer numbers to spread costs over, and Cadent recognised this dual issue. The CCG also challenged whether the company could use their Energy Diaries research work to explore inter-generational fairness and start to lay the foundations with customers that there are going to be no cheap energy solutions going forward.

The CCG challenged that Cadent needed to make clear how much investment is already embedded in today's network and has to be paid for. This is shown in the breakdown (p96 of Business Plan), which clarifies that of the network investment of £81, £72 is past investment still being paid for. The CCG believes it is vital that Whole Systems Planning for the Energy Transition addresses both the fairest way to fund remaining payments due for the existing network, and the options for maximising value from the investment by continuing to use all or part of it.

We also challenged that all numbers currently assume maintaining the current 11 million customer base and no significant disconnections. Cadent felt strongly, and the CCG agreed, that this is the only way to currently model these numbers, given the uncertainty over UK heat policy. However the CCG consider that this uncertainty means it is possible things may change substantially as we get towards 2030. The CCG remain extremely concerned that significant disconnections and shifts to electricity-sourced home heating by individuals who can afford it, by small and medium business customers, or by whole communities, very much risks increasing bills considerably for those left on gas, and that this problem will increase over time. Cadent have had meetings with UKPN and SPEN on working together on whole system thinking and how the companies can work together on understanding the shift to alternative heat provision – having been encouraged by the CCG to do so. The CCG will continue to support any and all efforts by Cadent to contribute to whole systems thinking in the UK.

Finally, we strongly encouraged Cadent in their desire to clearly show how the outcomes and benefits of their plan deliver against Ofgem's **Growth Drivers**, and we firmly believe that this is a very important part of the narrative around Cadent and GDNs overall. The gas sector currently plays a key role in productivity and growth in the UK, powering industry and businesses, and we believe it has potential to further support growth particularly in terms of providing jobs and skills, increased productivity, and innovation, even in our desired transition to a lower carbon economy.

6 The Future – 2025 and Beyond

From all our discussions, we would pull out the following key priorities that we will look to challenge more closely in 2025:

1. **People strategy:** The CCG consider it a high priority for Cadent to 'join the dots' across its existing strong initiatives with compelling longer term strategy that addresses the evolving challenges.
2. **Digital transformation:** The CCG will look to see Cadent build from the foundations already in place, in particular to create excellent modelling and scenario planning (for example using the Future Energy Explorer platform).
3. **Stakeholder engagement feedback:** The CCG believe that a more centralised approach to bringing in learnings from the rightly de-centralised relationships would be beneficial, and that a more rigorous 'triangulation' approach could be used to capture clear insight and decision logging.
4. **Whole systems thinking:** The CCG hope for Cadent to build on their thought leadership work to date, and take a lead in contributing to organisations such as NESO, and building stakeholder engagement that unites the voice and highlights the usefulness of the gas industry. Their ability to look at problems from various angles, and genuine desire to find (and test) solutions with the most positive impacts, could be a vital contribution to the shift to whole systems thinking in the UK.

5. **Delivery on business plan commitments:** The CCG will necessarily need to spend more time in 2025 onwards reviewing operational performance and progress reporting, to be able to challenge on progress against the business plan commitments.

7 Conclusions

In conclusion, the CCG believe this plan is in the interest of the majority of customers and stakeholders, as far as it can be within the current policy and Ofgem framework.

In particular we believe Cadent to be leading in four key ways:

- The proactive approach to **leakage** using digital technologies
- An optimised approach to **supporting vulnerable customers** through a wide and deep network of partners and initiatives that continues to evolve, building on their already established leadership position
- Their **pre-emptive approach** to assessing potential opportunities and challenges around the transition to net zero, and building the right capability to flex to those
- Their culture of wanting to '**do the right thing**' and putting customers and stakeholders at the heart of decision making

As with many businesses today, Cadent are on a **journey of change** – particularly driven by the potential transformations from data and digital capabilities, and the impact of net zero transition. There are therefore areas that still require ongoing attention and focus, but we believe that Cadent is up to that challenge and are building the right capabilities and culture to be able to deliver whatever is in the best interests of the UK energy sector and economy more broadly.

In terms of the **financial impact** of the business plan on customers, we believe Cadent have produced the right balance of investment whilst keeping bills as low as possible for customers, as far as they can at this point in time. **The CCG remain concerned about the potential impacts on bills** from both consumers shifting to electric heating solutions, and accelerated depreciation, and both seem likely to impact GDNs over the GD3 period. We also believe that maximising the use of this national infrastructure (of pipes and people, not necessarily just methane) could be a key part of any transition plan; and stress the need for proactive policy and frameworks to ensure that that is the case. More certainty would also help Cadent and GDNs more broadly, avoid potential traps of replication, reduced innovation, depleted workforce, and slow action on vital areas such as cyber security, and also maximise their ability to support jobs and productivity through their industrial and commercial customers as well as in society more broadly.

We look forward to continuing our open and productive relationship with Cadent, through challenge, scrutiny and ideas around both their business plan delivery and longer term challenges.

Independent Stakeholder Group Purpose & Remit

In its draft RIIO-3 Business Plan guidance (6 March 2024) Ofgem first suggested the need for an Independent Stakeholder Group (ISG), which was then confirmed in July 2024 and its remit defined.

The role of the ISG is to:

“...provide challenge and scrutiny to the company both as it develops its business plan and on an enduring basis in the ongoing delivery of its plan. The ISG will have a role in ensuring the company engages widely and openly with its stakeholders and will act on behalf of all stakeholders in holding the company to account in respect of the delivery of its outputs...

The ISG need to be informed of financial topics but are not required to evaluate the company’s financial plan...” (p5 of Draft Guidance)

The Guidance goes on to outline that the ISG role is to represent stakeholders, identifying areas of concern and challenging the company to develop business plans that address these, influencing their decision making with insight and feedback. ISG members, recruited by the Chair, need to act in the interest of existing and future consumers, with experience and insight but acting in a largely independent capacity.

Customer Challenge Group Set Up

In the spring of 2023 Cadent decided to establish a Customer Challenge Group (CCG), having had a Customer Engagement Group in place as a requirement from Ofgem for the RIIO2 Business Plan development process, and a Critical Friends Panel through 2021-22 to maintain external challenge before the establishment of the new CCG. Following a thorough recruitment process in the summer of 2023, Angela Love was appointed by Cadent as the Independent Chair of their CCG. Angela commenced work in September 2023 and started to recruit other CCG members to establish the group. Her intent was to “bring the outside in”, by assembling experts from within and outside the energy sector to constructively challenge Cadent’s thinking and ways of working. **The CCG was established in October 2023.**

Cadent mapped out the different policy areas that feature in their business, mapped to Cadent’s four pillars – safe, secure and resilient supplies, infrastructure fit for a transition to Net Zero, high quality of service and system efficiency and long term value for money. For each of these areas, the CCG Chair and Cadent considered which elements impact on the bill, and how much potential influence/optionality existed, and therefore, what level of scrutiny and challenge the CCG should have around them. This allowed the Chair and Cadent to determine high, medium and low areas of priority between the topics and also helped the Chair to identify the experts that it would be beneficial to have in the CCG Group.

In March 2024, when Ofgem determined that the network companies should establish ISGs, the CCG members, Cadent and the Chair agreed that the CCG would take the role of the ISG, and have been operating in that way since.

Customer Challenge Group Members

Adam Scorer	CEO, National Energy Action
Angela Love (Chair)	Multiple Chair and Non-Exec in energy policy and regulation
Ashleye Gunn	Expert Customer Advocate
David Flynn	Professor Cyber Physical Systems, University of Glasgow
Geraldine Buckland	Chief People Officer, and Non-Exec Director
Janet Wood	Editor, New Power Report
Leanne Case	Sustainability and Innovation Strategist, CEO, Vzir Consulting
Liz Tinlin	Purpose and Positive Action Strategy Consultant, Bluebabel
Stephen Barrett	Director of Strategic Accounts, Energy and Utility Skills

Cadent and the CCG Chair also agreed that it would be beneficial to establish a Sustainability Group to work alongside the CCG to cover environmental issues and challenges in detail. This group is Chaired by Leanne Case from the CCG. The members of the Sustainability Group are:

- Bunmi Adefajo, Energy Systems Innovation Expert
- Laura Hoang, Human Factors Engineer, Sustainability and Clean Energy Consultant

- Paul Dodds, Professor of Energy Systems, University College London (UCL)

From October 2023 we have had monthly full day meetings of the CCG/ISG, part of which is a members-only session. In addition we held mid-month catch-ups and the Chair has had at least monthly meetings with the company to plan the CCG meetings and agree discussion topics. In all meetings the members come together and cover topics that are pertinent to the challenges that the company is facing and that they need to consider as part of their plan. The group provided stakeholder perspectives and ensured that Cadent were considering and listening to consumer opinions, ultimately gaining an understanding of bill impacts and what this would mean for consumers.

Some of the topics that we have covered jointly as the group are:

- Future role of gas
- The customer insights process
- Hydrogen strategy
- Innovation and operations
- Workforce resilience
- Customer service and satisfaction
- Customer vulnerability strategy
- Shrinkage and leakage
- Net Zero collaboration
- Stakeholder engagement
- Digitalisation strategy
- Cadent's culture

Whilst these topics came to the whole group for discussion, we initiated, and are continuing to develop, a system of "buddies", where members of the group were paired to particular topics (depending on their expertise and experience) to have 1-2-1 meetings with Cadent's teams and consider in detail the proposals that Cadent were looking to put into the Business Plan, for example around customer vulnerability and workforce.

However, given the timescales, we also wish to reflect that whilst some of these buddy groups have had many meetings and significant ability to influence Cadent's Business Plan and thinking, some have only just got started at the time of Business Plan submission. These will therefore continue to evolve, and to gain impact, through the coming period.