

To:

Cadent Gas Limited

Date: 20 June 2025

Direction under Special Condition 3.9 of the Gas Transporter Licence held by Cadent Gas Limited to add allowances for the Net Zero Pre-construction work and Small Net Zero Projects Re-opener.

General

1. Cadent Gas Limited ('the Licensee') is the holder of a licence granted or treated as granted under section 7 of the Gas Act 1986 ('the Act').
2. Special Condition ('SpC') 3.9 provides a re-opener mechanism by which the Licensee may seek additional funding during the RII0-2 price control period for Net Zero Pre-Construction Work and Small Net Zero Projects.
3. The Licensee applied under SpC 3.9 on 28 March 2024 for funding relating to the East Coast North Project ('the Project'). The Authority publicly consulted on its Draft Determinations between 28 March 2025 and 25 April 2025. The consultation included a draft of this Direction, as required by Part C of SpC 3.9.
4. We received 9 direct responses to our proposal to fund the Cadent East Coast North FEED project and have placed all non-confidential responses on our website. All 9 responses were in favour. Having considered those responses, we have decided to proceed with making this Direction.

Approved funding for the Project

5. The approved amount is £25.92m in 2018/19 values. Further detail on the funding values are set out in our Final Determinations published on 20 June 2025.
6. The approved amount of £25.92m will be funded through the NZPt term within SpC 3.9. Annex 1 sets out the amounts to be recovered in each Regulatory Year. In addition to the funding approved, the Licensee will provide a contribution of £3.24m in 202018/19 values.

Project funding conditions

7. In accordance with Special Condition 3.9 and the NZASP Re-opener Governance Document, the Licensee must comply with the following conditions in undertaking the Project. It must:
 - a. undertake the Project in accordance with the description set out in its re-opener application,

- b. complete all the deliverables relating to the Project as set out in Annex 2 of this Direction,
 - c. inform the Authority promptly in writing of any material change to the cost of the Project or any material event or circumstance that is likely to delay the Project or affect its ability to deliver the Project as set out in its submission; and,
 - d. as part of the close-down report, set out how it has completed the deliverables set out in Annex 2 below.
8. If the Licensee fails to comply with a condition imposed by this Direction, the Authority will make use of this report in considering whether any funding should be returned to consumers, pursuant to Part A of Special Condition 3.9.
9. We also consider it best practice for the Licensee to share learnings from the Project, including publishing the learnings on the Licensee’s website.

NOW THEREFORE,

10. This Direction is issued pursuant to SpC 3.9 and sets out approved funding, adjustments to the value of the relevant term (NZPt) and the regulatory years to which that adjustment relates. These are set out in Annexes 1 and 2 of this Direction.
11. This Direction will take effect immediately. This Direction constitutes notice stating the reasons for the decision for the purposes of section 38A of the Act.

Yours sincerely,

Pete Wightman

Deputy Director Price Control Operations

For and on behalf of the Authority

Annex 1: SpC 3.9 Net Zero Pre-construction Work and Small Net Zero Projects (£m, 2018/19 prices)

Project/ Regulatory Year	2024/2	2025/2	2026/2	2027/2	2028/2	Total
Cadent East Coast North Project	0.00	8.64	8.64	8.64	0.00	25.92*

* Note: these allowances have been calculated using the RIIO-2 Totex Incentive Strength for the TIM adjustment. If the published TIM adjustment for Cadent changes for RIIO-3 then the allowances for 2026/27, 2027/28 and the Total should be updated using the formula, and as set out in the Table A below:

$$[Allowance, \text{£m}] = [Assessed Efficient Cost, \text{£m}] - [Company Contribution, \text{£m}] / [Totex Incentive Strength, \%]$$

Table A: Allowance adjustment for changes in Totex Incentive Strength
Regulatory Final Allowance Formula (£m, 2018/19 prices)
Year

2024/25	$0.00 - 0.00/50\% = 0.00$
2025/26	$10.80 - 1.08/50\% = 8.64$
2026/27	$10.80 - 1.08/TIS_{R3}$
2027/28	$10.80 - 1.08/TIS_{R3}$
2028/29	$0.00 - 0.00/TIS_{R3} = 0.00$

Where TIS_{R3} is the licensee's RIIO-3 Totex Incentive Strength.

Annex 2: Project deliverables

This annex sets out our requirements that Cadent will be held to account for delivering through this project. Should Cadent be unable to meet these deadlines, it must notify Ofgem of this at least two weeks beforehand, setting out the reasons for the delay and a revised submission date.

Ref.	Report	Deliverables	Evidence	Anticipated delivery dates
1	Technical Development	a) Finalised short list of preferred technical option(s) b) Flow assurance transient analysis to inform pipeline sizing	a) Interim and final set of options for final capex estimation and rationale. b) Further assessment updating from application detail.	a) Preferred technical options Interim: Class 4 CAPEX estimate September 2026 Final: Class 3 CAPEX estimate March 2028 b) Flow assurance June 2026
2	Technical Development	Delivery Plan	High level update summary of how the FEED will be delivered and how long it will take to be delivered An updated program, which may request updates to the deliverables table.	October 2025
3	Supply and Demand	a) Customer and producer connections b) MOU's, data capture forms and letters of support obtained for the identified core network: • Users • Producers • Storage Providers c) Identify requirement of commercial arrangements from all off-takers, producers, and storage companies	Progress report on consumers and project partners. Updated supply and demand volumes.	Interim updates June 2026 December 2026
4	Land, planning and Consents	a) Consultation Strategy in place	a) short report confirming plan in place for consultation and rough outline.	April 2026

Ref.	Report	Deliverables	Evidence	Anticipated delivery dates
		b) Route Corridor Study c) Preliminary Route Report d) Public project Launch	b) +c) Route planning update. d) Confirmation of progress on public engagement including overall public project launch, website and regional updates.	
5	Land, planning and Consents	Non-Statutory Consultation	Confirmation of launch. Details of outcomes, analysis and key concerns /support in final FEED study	Confirmation of launch May 2026 Non-statutory report with outcomes and analysis September 2026
6	Commercial Package	a) Cost of the project to deliver (CAPEX and OPEX) for each leg b) Class 4 Overall Project Cost Estimate c) Commercial risk identification and mitigation measures	a) High level Interim update on main project costs in word format (not excel). List changes from initial expectations as detailed in application. b) Cost estimate before the final FEED cost estimate c) Mid FEED risk register update report. Any new risks identified? Any risks declined?	Interim January 2027
7	Commercial Package	Update Cost Benefit Analysis	Changes to previous assumptions.	Interim March 2027
8	Project close down reports and FEED study	FEED study	Report and annexes	March 2028
9	Project close down reports and FEED study	Supply, demand and storage risk assessment		Interim March 2027 Final March 2028
10	Project close down reports and FEED study	a) Close down report b) Redacted close down report	<ul style="list-style-type: none"> • a short summary of the project background; • a short summary of the scope of the project; • the outcomes of the project; • highlighting objectives met successfully; • highlighting objectives not met successfully; • any learnings for future similar projects; • any recommendations for the supply chain to ensure scalability of hydrogen; • review of spending and cost versus plan; • identification of any unspent Approved Amounts which should be returned to the gas consumer; • identification of any overruns and reasons for overspending; and • Customer and producer connections 	March 2028