

# Consultation

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## RIIO-2 Re-opener Applications 2025 Draft Determinations – GD Sector Annex

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We<sup>1</sup> are consulting on a number of gas transporter licensee’s re-opener submissions that were submitted in the 24 September 2024 to 30 September 2024 and 25 January 2025 to 31 January 2025 windows. These are: Health and Safety Executive (HSE) Policy Re-opener, Specified Streetworks Costs Re-opener, and the Net Zero Pre-Construction Work and Small Net Zero Projects (NZASP) Re-opener. We would like views from people with an interest in gas transmission (GT) or gas distribution (GD). We would also welcome responses from other stakeholders and the public. We are proposing to allow £126.529m of the £215.097m requested, which will help to facilitate the Gas Distribution Networks (GDNs) in maintaining a safe and efficient network for consumers. This will be achieved through complying with HSE expectations, carrying out streetworks gas infrastructure remediations and scale-up of a vehicle-based emissions monitoring project.

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.

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<sup>1</sup> 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.

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## 1. Introduction

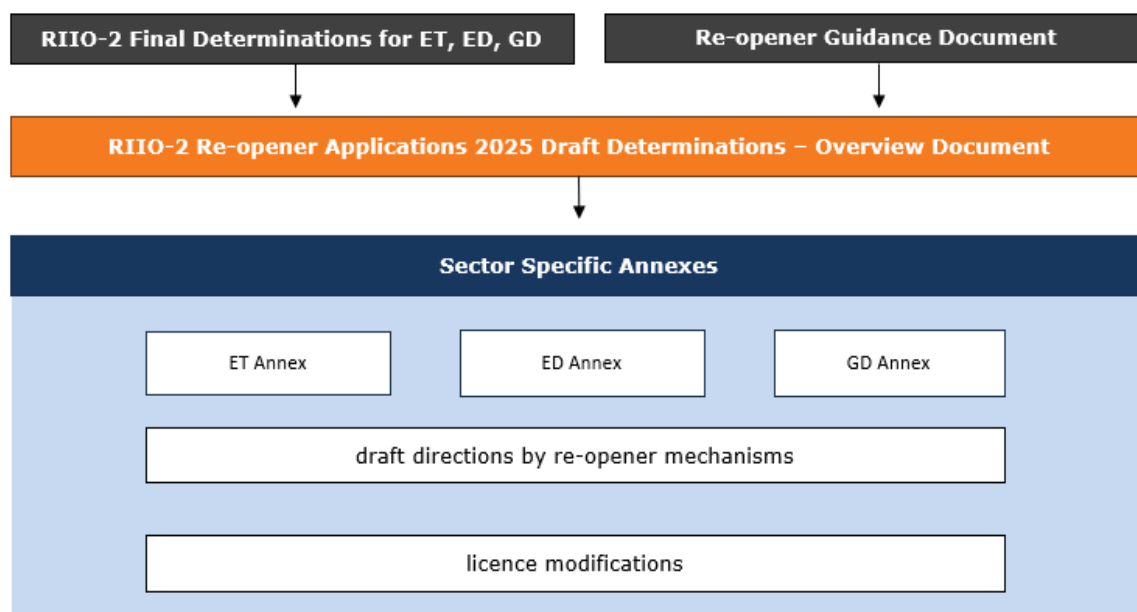
- 1.1 This document sets out our Draft Determinations (DDs) for applications submitted under the re-opener mechanisms listed in **Table GD1** below. Applications were all submitted during the following windows:
- 24 September 2024 to 30 September 2024: HSE Policy Re-opener (Special Condition (SpC) 3.17) and Specified Streetworks Costs Re-opener (SpC 3.24),
  - 25 January 2025 to 31 January 2025: NZASP Re-opener (SpC 3.9).
- 1.2 Since submissions, licensees have also provided additional information to us through Supplementary Question (SQ) responses.

**Table GD1: GD re-opener mechanisms subject to this consultation**

Reopener Mechanism	Special Condition
HSE Policy Re-opener	3.17
Specified Streetworks Costs Re-opener	3.24
Net Zero Pre-Construction Work and Small Net Zero Projects Re-opener	3.9

- 1.3 How this document fits with the wider Re-opener Applications 2025 DDs publication, is set out in **Figure 1** below. We intend this document to be read alongside several other documents, including the Re-opener Applications 2025 DDs Overview Document and relevant annexes.

**Figure 1: Navigating our Draft Determinations**



## Cost adjustments

- 1.4 Under the re-opener mechanisms listed in this annex, directions are issued by Ofgem to set out any allowance adjustments. These allowances are adjusted by changing the value of the re-opener terms listed within the licences (SpC 3.17  $REP_t$  term, SpC 3.24  $STW_t$  term, SpC 3.9  $NZP_t$  term) and the Regulatory Years to which that adjustment relates. We have included draft directions in Appendix 1 of this annex which sets out our proposed directions. We will issue formal directions to set out any adjustments alongside our Final Determinations (FDs).

## Questions

GD.Q1. Do you have any views on the draft directions contained in Appendix 1?

## 2. Summary of our Draft Determinations

2.1 The GDNs have submitted re-opener applications to apply for additional RIIO-2 allowances under the following mechanisms:

- HSE Policy Re-opener – HSE has updated its expectations around fatigue management, which the GDNs must comply with and has resulted in material increases to their costs. We are proposing to award proportionate allowances to each of the GDNs based on individual emergency and repair staff numbers per network.
- Specified Streetworks Costs Re-opener – the GDNs have requested additional funding to cover costs relating to streetworks requirements. As per the licence, we are proposing to only award allowances for GDN costs directly relating to new streetworks schemes which have been introduced in RIIO-2.
- NZASP Re-opener (Cadent only) – Cadent has applied for additional allowances to cover a vehicle-based emissions monitoring project roll-out ahead of RIIO-3. We are proposing to award Cadent’s project costs in full. However, this is lower than the original cost request as we are proposing a company contribution and a Totex Incentive Mechanism (TIM) adjustment to protect this contribution.

2.2 **Table GD2** below summarises our DDs for the GD re-openers covered in this annex. Chapters 3-5 below discuss these in greater detail.

**Table GD2: Summary of our GD Draft Determinations**

Sector Group	Network	Company Requested Number of Projects	Company Requested Forecast costs £m	Ofgem’s DD - Projects Approved	Ofgem’s DD - Projects Not Approved	Ofgem’s DD - Cost adjustment £m	Ofgem’s DD - Allowances £m
Cadent	EoE	2	21.803	2	0	-5.986	15.817
Cadent	Lon	3	21.410	2	1	-12.074	9.336
Cadent	NW	2	13.658	2	0	-2.386	11.272
Cadent	WM	2	8.853	2	0	-0.792	8.061
Northern Gas Networks	NGN	2	33.690	2	0	-18.566	15.124
Scotia Gas Networks	Sc	1	19.936	1	0	-9.694	10.242
Scotia Gas Networks	So	2	45.684	2	0	-15.585	30.099
Wales & West Utilities	WWU	2	50.063	2	0	-23.485	26.578
<b>Total</b>		<b>16</b>	<b>215.097</b>	<b>15</b>	<b>1</b>	<b>-88.568</b>	<b>126.529</b>

### 3. HSE Policy Re-opener

#### Questions

- GD.Q2. Do you agree with our assessment of applications under the HSE Policy Re-opener and our Draft Determinations? Please include your views on our assessment of the needs case, optioneering and draft allowances.
- GD.Q3. Do you agree with our proposal to award allowances proportionate to each GDN's emergency and repair staff numbers?
- GD.Q4. Do you agree with our calculation methodology? Please include views on each aspect including benchmarking, RIIO-2/RIIO-3 funding splits, and consistency with the RIIO-2 allowances proposed in our RIIO-3 Draft Determinations.
- GD.Q5. Of the categories listed in paragraph 3.9, which categories should we consider awarding funding for?

#### Purpose of the re-opener mechanism

- 3.1 The HSE Policy Re-opener is a common GD sector re-opener to account for changes in HSE-related policy areas that result in material increases in GDNs costs during RIIO-GD2. GDNs may apply for re-opener funding where there are:
- changes to a Repex Related HSE Policy Area that will materially impact Repex or,
  - Emergency And Repair Costs directly arising from statutory requirements relating to managing fatigue for shift workers enforced by the HSE.

All GDNs submitted re-opener applications under Trigger 2.

- 3.2 HSE has confirmed its expectations around managing fatigue, which are:
- 12 hours maximum shift length;
  - 60 hours maximum in a 7 day rolling period; and
  - Appropriate consecutive rest between shifts – this is not explicitly defined, but in practice would be approximately 11 hours.
- 3.3 The GDNs have made changes to working practices to align with HSE expectations which has led to additional costs being incurred in RIIO-GD2.

#### Applications received and summary of our Draft Determinations

- 3.4 We are proposing to award allowances to each of the GDNs proportionate to the number of emergency and repair staff within each network. **Table GD3** below summarises the re-opener applications we have received from each licensee and our DDs.

**Table GD3: Applications received and summary of our DDs (£m, 2018/19 prices)**

Sector Group	GDN submitted costs (RIIO-2 only)	Ofgem adjustments	Ofgem DD allowance
Cadent	29.594	-1.488	28.106
NGN	16.214	-5.214	11.000
SGN	*50.660	-20.212	30.448
WWU	25.753	-1.042	24.711
<b>Total</b>	<b>122.221</b>	<b>-27.956</b>	<b>94.264</b>

*\*SGN confirmed during the SQ process that an incorrect total had been provided at time of re-opener submission (£49.860m), which was £0.800m lower than what it should have been. We have updated the total to the correct number.*

### Needs case and optioneering assessment

- 3.5 We are satisfied that applications under the HSE re-opener are within scope as there have been updates to statutory requirements relating to managing fatigue for shift workers enforced by the HSE within RIIO-GD2.
- 3.6 We accept that “do nothing” or “delay until RIIO-3” options to avoid fatigue costs are not feasible as the GDNs must comply with HSE expectations.

### Cost assessment

- 3.7 We expect that an efficient GDN would need to incur initial additional spend for organisational changes to ensure compliance with the updated statutory requirements on managing fatigue.
- 3.8 We consider the overall cost impact on an efficient GDN complying with HSE expectations should be roughly proportionate to the number of staff directly affected by the requirements. We are, therefore, proposing to award allowances at a consistent unit rate, based on the number of emergency and repair staff within each network.<sup>2</sup> The allowances are intended to enable the GDNs to enact required organisational changes up to a point where the changes become embedded as business-as-usual. After this point any ongoing costs should be covered by RIIO-3 and subsequent price control allowances. We consider this approach to be a fair and efficient way to award allowances, given the variations between network operating models, the level of fatigue management work completed to date, and to recognise that GDNs are coming from different starting points in this regard.

<sup>2</sup> For our assessment we have used data on staff numbers from the Business Plan Data Templates (BPDTs) submitted as part of RIIO-GD3 business plans.



## **Benchmarking approach**

3.9 The GDNs have included a range of different activities within their applications. To facilitate our assessment, we have considered a number of consistent categories that we consider to be eligible for funding under the re-opener mechanism. While some GDNs have included costs in all categories within their submission, this is not the case for all. These cost categories we consider to be eligible for funding are:

- Operational resource, including:
  - Productivity impact;
  - Standby rota changes;
  - Work pattern changes;
  - Compensatory rest;
- Training;
- IT;
- Research; and
- Fatigue management (including risk assessments).

We welcome views on which cost categories should be funded under this mechanism, given the variation between GDN applications and funding provided to date on certain activities. We welcome views on our proposed approach to award allowances proportionate to staffing levels and on the cost categories that should be funded through the re-opener.

3.10 We are aiming for as much consistency as possible with the proposed approach to setting RIIO-3 allowances for these activities as set out in our [RIIO-3 Draft Determinations for the Gas Distribution Sector](#) published on 1 July 2025. We welcome views on consistency and alignment with RIIO-3 DDs. Where scope for further alignment is identified then we will endeavour to facilitate this at FDs.

3.11 We have considered the total cost of fatigue management (i.e. total cost of all the above cost categories) over both RIIO-GD2 and RIIO-GD3 price controls, and calculated unit rates for each network based on the number of emergency and repair staff. We have then set an efficiency benchmark at the 75<sup>th</sup> percentile of calculated rates. This is consistent with the efficiency benchmark starting point for RIIO-GD3.<sup>3</sup>

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<sup>3</sup> [RIIO-3 Draft Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#) – GD Annex, Chapter 5.

- 3.12 Although our assessment gives our view of the total additional cost that we expect efficient GDNs to incur, we are only setting RIIO-2 costs through this re-opener mechanism. We, therefore, need to apportion the assessed costs across RIIO-2 and RIIO-3. To do this we have applied the same proportional split as the GDNs' re-opener submission forecasts. For example, if a GDN forecast 70% of its additional costs in RIIO-2 and 30% in RIIO-3, then our proposal is to award 70% of our assessed total costs as RIIO-2 allowances.

### **Benchmarking results and proposed allowances**

- 3.13 **Table GD3a** below contains an overview of our benchmarking results. The data and detailed calculations can be found in our published data file.

**Table GD3a: HSE Policy benchmarking**

<b>Network</b>	<b>Avg FTE</b>	<b>Unit rate (75th percentile)</b>	<b>Total efficient cost (£m)</b>	<b>GD2 allowance (£m)</b>
EoE	566	0.067	38.190	8.127
Lon	494	0.067	33.303	8.446
NW	473	0.067	31.885	6.962
WM	272	0.067	18.322	4.571
NGN	542	0.067	36.559	11.000
Sc	452	0.067	30.484	10.242
So	878	0.067	59.233	20.206
WWU	366	0.067	24.711	24.711

## **4. Specified Streetworks Costs Re-opener**

### **Questions**

GD.Q6. Do you agree with our assessment of applications under the Specified Streetworks Costs Re-opener and our Draft Determinations? Please include your views on our assessment of the needs case, optioneering and draft allowances.

### **Purpose of the re-opener mechanism**

- 4.1 The GDNs are obligated to maintain a safe and efficient network under the Pipeline Safety Regulations 1996 (PSR). Where required, the GDNs must apply for streetworks permits prior to commencing planned and reactive gas mains replacements and repairs. The aim of a permit scheme is to minimise disruption to the local authority's network area, such as disruption to traffic and businesses. Permit conditions dictate the type of traffic management that those statutory undertakers, such as GDNs, must use to complete their work. For example, a condition can be the use of manually controlled traffic lights which requires on-site operatives to oversee operation.
- 4.2 Lane rental requires operators to pay a daily charge for occupation of the highway while undertaking work. Lane rental schemes are additional to permit schemes and aim to provide a clear framework for a targeted approach to network management and reducing congestion from works. Lane rental is focused on key strategic locations and charges are only applied at the busiest times.
- 4.3 Highway Authorities (HA) may also operate Controlled Parking Zones (CPZ). These tend to be in residential areas where on-street parking is often the only option, and a yearly fee is paid to the HA to park there. GDNs may be required to obtain Parking Bay Suspension (PBS) orders to allow them to use these parking bays to undertake and complete works.
- 4.4 The Specified Streetworks Re-opener mechanism allows GDNs to recover efficient costs of complying with new permit and lane rental schemes, or new requirements introduced by public bodies after commencement of the RIIO-GD2 price control period.

### **Applications received and summary of our Draft Determinations**

- 4.5 We are proposing to award allowances only where they relate to new schemes introduced in RIIO-GD2. **Table GD4** below highlights what re-opener applications we have received from each licensee and a summary of our DDs.

**Table GD4: Applications received and summary of our DDs (£m, 2018/19 prices)**

<b>Sector Group</b>	<b>GDN submitted costs (RIIO-2 only)</b>	<b>Ofgem adjustments</b>	<b>Ofgem DD allowance</b>
Cadent	15.650	-15.650	0.000
NGN	17.476	-13.352	4.124
SGN	14.960	-5.067	9.893
WWU	24.310	-22.443	1.867
<b>Total</b>	<b>72.396</b>	<b>-56.512</b>	<b>15.884</b>

### **Needs case and optioneering assessment**

- 4.6 We are satisfied that submissions under the Specified Streetworks re-opener are broadly within scope, and that appropriate optioneering has been considered to address the needs case.
- 4.7 We accept that “do nothing” or “delay until RIIO-3” options to avoid streetworks costs are not feasible as the GDNs must meet statutory obligations in regard to pipeline maintenance and safety under PSR.

### **Cost assessment**

- 4.8 All GDNs have included requirements implemented in the last year of RIIO-GD1 within their re-opener applications, stating increased costs and volumes relating to these requirements were not included in RIIO-GD2 business plan submissions and have therefore not been accurately forecast in RIIO-GD2 baseline assessments.
- 4.9 We acknowledge this concern from the GDNs, which was also raised at RIIO-2 FDs. In our RIIO-2 FD GD annex paragraph 4.54, we acknowledged respondent’s concerns that the re-opener mechanism should include costs for requirements implemented in the last year of RIIO-GD1 as they were not included in the baseline streetworks assessment. We noted these concerns and decided to not widen the scope of the re-opener in response. Instead, we addressed them by extending the time-period used in our baseline streetworks assessment, overall increasing the total baseline allowances awarded across all of the GDNs.
- 4.10 As per SpC 3.24.7(a), applications must “relate to permit schemes, lane rental schemes or requirements that have been imposed or are expected to be imposed on or after 1 April 2021”. We, therefore, consider any requirements introduced before 1 April 2021, regardless of whether they were known about at the time of a GDN’s RIIO-2 business plan submission, to not be in scope of the re-opener mechanism.

- 4.11 We, therefore, propose to disallow costs which relate to requirements implemented before 1 April 2021. This is highlighted in the individual company sections below.

## **Cadent**

- 4.12 **Table GD4a** below highlights our DDs for Cadent's Specified Streetworks Costs Re-opener. GDN's may only submit applications under the mechanism, where the specified materiality thresholds have been exceeded as set out in the licence.<sup>4</sup> Cadent has submitted that costs have only exceeded the materiality threshold in its North London network only, and have not applied for costs relating to any other networks.

**Table GD4a: Summary of Cadent's request under the Specified Streetworks Costs Re-opener and Ofgem's DDs (£m, 2018/19 prices)**

	<b>Cadent submitted costs</b>	<b>Schemes after 1 April 2021</b>	<b>Ofgem adjustments</b>	<b>Ofgem DD allowance</b>
PBS	13.670	Nil	-13.670	0.000
Traffic light management	1.980	Nil	-1.980	0.000
<b>Total</b>	<b>15.650</b>		<b>-15.650</b>	<b>0.000</b>

- 4.13 We propose to disallow all costs under Cadent's Specified Streetworks Costs Re-opener application. Cadent confirmed, as part of the SQ process, that all requirements included in its application were in place before April 2021 and are therefore out of scope.

## **NGN**

- 4.14 **Table GD4b** below highlights our DDs for NGN's Specified Streetworks Costs Re-opener.

**Table GD4b: Summary of NGN's request under the Specified Streetworks Costs Re-opener and Ofgem's DDs (£m, 2018/19 prices)**

	<b>NGN submitted costs</b>	<b>Schemes after 1 April 2021</b>	<b>Ofgem adjustments</b>	<b>Ofgem DD allowance</b>
Permits	5.898	2 out of 15	-5.409	0.489
Traffic management	11.578	2 out of 15	-7.943	3.635
<b>Total</b>	<b>17.476</b>		<b>-13.352</b>	<b>4.124</b>

- 4.15 We propose to partially disallow costs under NGN's Specified Streetworks Costs Re-opener application. NGN confirmed, as part of the SQ process, that only two

<sup>4</sup> Chapter 1: Interpretation and definitions; Special Condition 1.1 Interpretation and definitions; Part B: Definitions, paragraph 1.1.16.

local authorities (East Riding and York) had implemented schemes after April 2021. We therefore consider the remaining thirteen schemes, and associated re-opener costs, to be out of scope.

## SGN

- 4.16 **Table GD4c** below highlights our DDs for SGN's Specified Streetworks Costs Re-opener. SGN has submitted costs that have only exceeded the Materiality Threshold in its Southern network only and have not applied for costs relating to its Scotland network.

**Table GD4c: Summary of SGN's request under the Specified Streetworks Costs Re-opener and Ofgem's DDs (£m, 2018/19 prices)**

	<b>SGN submitted costs</b>	<b>Schemes after 1 April 2021</b>	<b>Ofgem adjustments</b>	<b>Ofgem DD allowance</b>
Lane rental	11.430	5 out of 6	-2.420	9.010
ULEZ	0.883	Yes	0.000	0.883
Traffic management	2.644	Nil	-2.644	0.000
<b>Total</b>	<b>14.957</b>		<b>-5.064</b>	<b>9.893</b>

- 4.17 We propose to partially disallow costs under SGN's Specified Streetworks Costs Re-opener application. SGN confirmed, as part of the SQ process, that five local authorities had implemented schemes after April 2021. One local authority (Kent County) implemented schemes in the 2019/20 financial year.
- 4.18 We propose to disallow costs related to Kent County Council permit schemes as we consider these to be out of re-opener scope.
- 4.19 We propose to award £0.883m for ULEZ charges. This relates to London's ULEZ scheme which was implemented in 2020 and was expanded in October 2021 and August 2023, to cover all 32 London boroughs.
- 4.20 We acknowledge SGN's narrative that it tries to avoid non-compliant vehicles in ULEZ areas, but is not always possible, particularly in emergency situations. SGN is also procuring replacement ULEZ-compliant vehicles through the fleet optimisation strategy. Although we consider ULEZ charges to be within re-opener scope, we expect SGN to continue its transition to zero non-compliant vehicles in ULEZ areas and to completely avoid these charges in future.

## WWU

- 4.21 **Table GD4d** below highlights our DDs for WWU's Specified Streetworks Costs Re-opener.

**Table GD4d: Summary of WWU's request under the Specified Streetworks Costs Re-opener and Ofgem's DDs (£m, 2018/19 prices)**

	<b>WWU submitted costs</b>	<b>Schemes after 1 April 2021</b>	<b>Ofgem adjustments</b>	<b>Ofgem DD allowance</b>
Permits	6.850	3 out of 14	-5.974	0.876
Traffic management	14.360	3 out of 14	-13.493	0.867
Road closure costs	3.100	3 out of 14	-2.976	0.124
<b>Total</b>	<b>24.310</b>		<b>-22.443</b>	<b>1.867</b>

- 4.22 We propose to partially disallow costs under WWU's Specified Streetworks Costs Re-opener application. WWU confirmed, as part of the SQ process, that only three local authorities (Herefordshire, Swindon and Torbay) had implemented schemes after April 2021. We, therefore, consider the remaining eleven schemes, and associated re-opener costs, to be out of scope.

## **5. NZASP Re-opener – Cadent**

### **Questions**

GD.Q7. Do you agree with our applications assessment under the NZASP Re-opener and our Draft Determinations? Please include your views on our assessment of the needs case, optioneering and draft allowances.

### **Purpose of the re-opener mechanism**

- 5.1 The NZASP re-opener allows GD and GT network companies to recover costs for undertaking early design, development, general pre-construction work, and net zero facilitation capital projects that will enable the achievement of Net Zero Carbon Targets.
- 5.2 The NZASP re-opener is an Authority triggered re-opener, meaning that the licensee does not have an automatic right to make a submission, and may only do so where the Authority has determined, based on preliminary information provided by the licensee, that its proposals are likely to be within scope of the NZASP re-opener. Triggering a re-opener application does not place any obligation on the Authority to approve a licensee's proposals or to award any additional funding to the licensee.
- 5.3 Cadent is seeking to bring forward £20.480m of allowances sought as part of its RIIO-GD3 plan<sup>5</sup> for vehicle-based Advanced Leakage Detection (ALD) which measures emissions from its Low Pressure (LP) and Medium Pressure (MP) networks. Cadent claims that bringing the project forward one year, to the last year of RIIO-GD2, will bring multiple benefits and will positively impact the UK's ability to meet Net Zero Carbon Targets.
- 5.4 This project was originally brought forward by Cadent under the Non-Operational IT Capex Re-opener mechanism in September 2023. Our [RIIO-2 Non-Operational IT Capex Re-opener FDs 2024](#)<sup>6</sup> highlighted a number of concerns and we therefore decided to reject funding for the project at the time. We considered there would be benefit in using this technology ahead of RIIO-3, and that the project would be more appropriate to assess through the NZASP re-opener mechanism given the link to achieving Net Zero targets.

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<sup>5</sup> More detail on our RIIO-GD3 ALD funding proposals can be found in our [RIIO-3 Draft Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#) – GD Annex, Chapter 3

<sup>6</sup> Chapter 2 "Cadent Project 4: Final Determination"



5.5 We triggered the NZASP re-opener on 18 July 2024 and invited Cadent to make a full submission in January 2025.

## **Applications received and summary of our Draft Determinations**

5.1 **Table GD5** below highlights what re-opener applications we have received from each licensee and a summary of our DDs.

**Table GD5: Applications received and summary of our DDs (£m, 2018/19 prices)**

<b>Sector Group</b>	<b>GDN submitted costs (RIIO-2 only)</b>	<b>Ofgem adjustments</b>	<b>Ofgem DD allowance</b>
Cadent	20.480	-4.100	16.380
NGN	0.000	0.000	0.000
SGN	0.000	0.000	0.000
WWU	0.000	0.000	0.000
<b>Total</b>	<b>20.480</b>	<b>-4.100</b>	<b>16.380</b>

## **Needs case and optioneering assessment**

5.2 As outlined in our previous RIIO-2 Non-Operational IT Capex Re-opener decision, we believe it will be beneficial to bring the project forward ahead of RIIO-3 due to the benefits it can produce. We consider the project has the potential to reduce methane emissions, directly contributing to delivery of Net Zero targets.

5.3 We are, therefore, satisfied the project is within scope of the NZASP re-opener mechanism in accordance with SpC 3.9 of Cadent's Gas Transporter licence.

## **Cost assessment**

5.4 **Table GD5a** below provides a more detailed summary of our cost adjustments.

**Table GD5a: Cost assessment for Cadent's NZASP project (£m, 2018/19 prices)**

<b>Cost category</b>	<b>Cadent submitted costs</b>	<b>Ofgem adjustments</b>	<b>Draft allowances</b>
Efficient project costs	20.480	0.000	20.480
Cadent NZASP contribution (10%)	0.000	-2.050	-2.050
TIM impact adjustment	-	-2.050	-2.050
<b>Total</b>	<b>20.480</b>	<b>-4.100</b>	<b>16.380</b>

5.5 We propose to make the following adjustments:

- Company contribution; and
- TIM impact adjustment.

We do not propose any adjustments to Cadent's submitted project costs.

### Company contribution

- 5.6 Cadent undertook a North London pilot and purchased four vehicle-based ALD units which was funded through an overspend of totex allowances (£4.260m). The overspend is subject to TIM meaning Cadent will contribute 50% to this overspend (£2.130m) which represents 9% of the total costs to be incurred during RIIO-GD2 (£4.260m totex overspend plus £20.480m NZASP allowance). Cadent proposes that this is its company contribution.
- 5.7 We propose that Cadent pays a 10% contribution in addition to what has already been funded through totex overspend. Under NZASP guidelines, we expect a 10% contribution from any licensee that receives funding under this mechanism. We have applied this to our assessment of Cadent's allowances and have adjusted accordingly to reflect this policy.

### TIM impact adjustment

- 5.8 The Net Zero Pre-construction Work and Small Net Zero Projects Re-opener term (NZP<sub>t</sub> term) contributes to the calculation of the Totex Allowance and funding under this term is also subject to the TIM. This is a mechanism within the GD2 Price Control Financial Model (PCFM) which provides for the licensee to bear a specific share of any project overspend or retain a specified share of any underspend. This is represented, in either case, by a difference between the Totex Allowance and the actual totex expenditure.
- 5.9 If Cadent spends at an efficient level, as we would expect, then the TIM would return half of Cadent's totex funding and would reduce the 10% company contribution Cadent has provided. We, therefore, propose to calculate our allowances using the following formula, which will negate the impact of TIM on the company contribution, ensuring Cadent provide a 10% minimum contribution:

$$[Allowance] = [Assessed\ Efficient\ Costs] - [Company\ Contribution]/[TIS]$$

Where:

TIS means the Totex Incentive Strength.

- 5.10 Applying Ofgem's assessed efficient costs (£20.480m) and Cadent contribution (£2.050m) values as per **Table GD5a** above, in addition to Cadent's Totex Incentive Strength of 50%<sup>7</sup>, gives the following allowance:

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<sup>7</sup> As per Cadent's licence.

$$\begin{aligned}[Allowance] &= [20.480] - \left[ \frac{2.050}{50\%} \right] \\ &= £16.380m\end{aligned}$$

We therefore propose to award £16.380m for Cadent's project.

### **Treatment of regulatory funding**

- 5.11 When we assess whether projects should receive re-opener funding, we must also consider and justify consumer bill impact. Projects must demonstrate clear benefits to consumers in addition to costs being efficient and robustly justified. For example, if a transmission project demonstrates clear benefits to all GB consumers, we typically consider socialising costs across all GB consumers.
- 5.12 Cadent has proposed that the project be funded through network specific RIIIO-2 Totex allowances, given Cadent's consumers could benefit from regional methane reductions.
- 5.13 We propose to fund via the NZPt term and socialise costs among Cadent's own network and customers. Our default position is to socialise GDN costs at a regional level. We do not consider there is sufficient justification in socialising across all GB consumers and deviating from these norms.

### **Proposed project deliverables**

- 5.14 Project deliverables are project specific outputs, such as key activity milestones or evidence to be reported to Ofgem. This provides evidence that projects are progressing as planned. These are set out in the direction, meaning deliverables should be met as a condition of receiving funding through the re-opener. Funding can be adjusted where Ofgem determines under-delivery or non-delivery of a project deliverable (subject to a well-reasoned justification for under or non-delivery from the licensee).
- 5.15 In accordance with SpC 3.9 of Cadent's Licence, we are consulting on the draft direction which is set out in Appendix 2. As part of this, and in accordance with the NZASP re-opener governance document, we are consulting on the proposed Project deliverables. Prior to a decision being issued, Cadent should indicate, in writing, that it will comply with the Project deliverables following any amendments made by Ofgem.
- 5.16 **Table GD5b** below contains the project deliverables proposed by Cadent within its re-opener application and we propose to accept these. We propose to amend

the indicative deadline for Cadent’s interim report (reference 1 below) to after our expected FDs publication.

**Table GD5b: Cadent’s proposed project deliverables**

<b>Reference</b>	<b>Proposed project deliverable</b>	<b>Indicative deadline</b>	<b>Evidence</b>
1	Interim vehicle-based ALD roll out report	<u>31/11/25</u>	The report should set out: 1. Current vehicle-based ALD capacity: a) Number of units purchased, b) Number of units mobilised, c) Length of network surveyed, d) Follow on interventions commissioned. 2. Roadmap for the next 5 months of roll out.
2	Final vehicle-based ALD roll out report	31/03/26	The report should set out: 1. Vehicle-based ALD capacity vs re-opener targets: a) Number of units purchased, b) Number of units mobilised, c) Length of network surveyed, d) Follow on interventions commissioned. 2. Progress update on emissions estimation method capability.
3	Mobilisation of full LP/MP network coverage capacity	31/03/26	Evidence showing survey capacity.

## **6. Next steps**

- 6.1 We welcome your responses to this consultation, both generally, and in particular on the specific questions listed in this annex. Please send your response to: [ReopenerConsultations@ofgem.gov.uk](mailto:ReopenerConsultations@ofgem.gov.uk). The deadline for response is 26 August 2025.
- 6.2 We will carefully consider all consultation responses and endeavour to conclude our assessments of the re-opener applications listed in this annex with a decision by the end of calendar year 2025.

## Appendices

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## **Appendix 1 – Draft Directions: HSE Policy and Specified Streetworks Costs Re-openers**

### **Introductory note**

Following our assessment of re-opener submissions, we have set out our Draft Determinations. 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 give effect to our Final Determination, as required by Special Conditions 3.17 and 3.24. Upon consultation, and proper consideration of consultation responses, we intend to confirm the direction at the same time as setting out our Final Determinations.

This draft 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 26 August 2025 to: Catherine Warrilow, Office of Gas and Electricity Markets, 10 S Colonnade, London, E14 4PU or by email to [ReopenerConsultations@ofgem.gov.uk](mailto:ReopenerConsultations@ofgem.gov.uk).

### **Draft Direction**

#### **To:**

**Cadent Gas Limited**

**Northern Gas Networks plc**

**Scotland Gas Networks plc**

**Southern Gas Networks plc Wales**

**West Utilities Limited**

**Direction under Special Conditions 3.17 and 3.24 of the Gas Transporter Licence held by the licensees listed above to add allowances for HSE Policy and Specified Streetworks Costs Re-openers.**

- 1.1. Each of the licensees to whom this document is addressed is the holder of a licence granted or treated as granted under section 7 of the Gas Act 1986 ('the Act').

- 1.2. Special Conditions 3.17 and 3.24 provides re-opener mechanisms by which the Licensee may seek additional funding during the RIIO-2 price control period for HSE Policy activities and Specified Streetworks costs respectively.
- 1.3. The Licensees applied under Special Conditions 3.17 and Special Conditions 3.24 in September 2024. The Authority publicly consulted on its Draft Determinations between 18 July 2025 and 26 August 2025. This document included a draft of this direction, as required by Part D of Special Conditions 3.17 and 3.24.
- 1.4. We received [x] responses and have placed all non-confidential responses on our website. Having considered those responses, we have decided to proceed with making this direction.
- 1.5. This direction is issued pursuant to Special Conditions 3.17 and 3.24 and sets out approved funding, adjustments to the value of relevant terms ( $REP_t$  and  $STW_t$ ) and the Regulatory Years to which that adjustment relates. These are set out in Annexes 1 and 2.
- 1.6. 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 3.17 HSE Policy Re-opener $REP_t$**

Approved amounts:

- Cadent [£28.106m];
- NGN [£11.000m];
- SGN [£30.448m]; and
- WWU [£24.711m].



**Consultation - RIIO-2 Re-opener Applications 2025 Draft Determinations – GD Sector Annex**

<b>Distribution Network/Regulatory Year</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
EoE	0.270	0.291	0.176	0.746	6.644	8.127
Lon	0.391	0.420	0.250	1.339	6.046	8.446
NW	0.228	0.246	0.142	0.747	5.599	6.962
WM	0.248	0.266	0.160	0.627	3.270	4.571
Northern Gas Networks plc	0.497	1.298	1.113	1.113	6.979	11.000
Scotland Gas Networks plc	0.000	0.047	3.151	3.346	3.698	10.242
Southern Gas Networks plc	0.000	0.067	6.455	6.584	7.100	20.206
Wales and West Utilities plc	2.102	4.261	6.420	5.844	6.084	24.711

**Annex 2: SpC 3.24 Specified Streetworks Costs Re-opener STW<sub>t</sub>**

Approved amounts:

- Cadent [£0.000m];
- NGN [£4.124m];
- SGN [£9.893m]; and
- WWU [£1.867m].

<b>Distribution Network/Regulatory Year</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
EoE	0.000	0.000	0.000	0.000	0.000	0.000
Lon	0.000	0.000	0.000	0.000	0.000	0.000
NW	0.000	0.000	0.000	0.000	0.000	0.000
WM	0.000	0.000	0.000	0.000	0.000	0.000
Northern Gas Networks plc	0.824	0.825	0.825	0.825	0.825	4.124
Scotland Gas Networks plc	0.000	0.000	0.000	0.000	0.000	0.000
Southern Gas Networks plc	2.622	2.542	1.813	1.353	1.563	9.893
Wales and West Utilities plc	0.167	0.280	0.572	0.424	0.424	1.867

## **Appendix 2 – Draft Direction: NZASP Re-opener**

### **Introductory note**

Following our assessment of this re-opener submission, we have set out our Draft Determinations. 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 give effect to our Final Determination, as required by Special Condition 3.9. Upon consultation, and full consideration of all consultation responses, we intend to confirm the direction at the same time as setting out our Final Determinations.

This draft 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 26 August 2025 to: Catherine Warrilow, Office of Gas and Electricity Markets, 10 S Colonnade, London, E14 4PU or by email to [ReopenerConsultations@ofgem.gov.uk](mailto:ReopenerConsultations@ofgem.gov.uk).

### **Draft Direction**

#### **To:**

**Cadent Gas Limited**

**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 RIIO-2 price control period for Net Zero Pre-Construction Work and Small Net Zero Projects.
3. The Licensee applied under SpC 3.9 on 31 January 2025 for funding relating to Vehicle-Based Advanced Leak Detection ('the Project'). The Authority publicly consulted on its Draft Determinations between 18 July 2025 and 26 August 2025. The consultation included a draft of this direction, as required by Part C of SpC 3.9.

4. We received [x] responses and have placed all non-confidential responses on our website. Having considered those responses, we have decided to proceed with making this direction.

Approved funding for the Project

5. The approved amount is [£16.380m] in 2018/19 values. Further detail on the funding values are set out in our decision published on [date].
6. The approved amount of [£16.380m] will be funded through the [NZP<sub>t</sub> 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 [£2.050m] in 2018/19 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 [NZP<sub>t</sub>] 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)**

<b>Distribution Network/Regulatory Year</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
EoE	0.000	0.000	0.000	0.000	7.690	7.690
Lon	0.000	0.000	0.000	0.000	0.890	0.890
NW	0.000	0.000	0.000	0.000	4.310	4.310
WM	0.000	0.000	0.000	0.000	3.490	3.490

**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.

Reference	Proposed project deliverable	Indicative deadline	Evidence
1	Interim vehicle-based ALD roll out report	<u>31/11/25</u>	<p>The report should set out:</p> <ol style="list-style-type: none"> <li>Current vehicle-based ALD capacity: <ol style="list-style-type: none"> <li>Number of units purchased,</li> <li>Number of units mobilised,</li> <li>Length of network surveyed,</li> <li>Follow on interventions commissioned.</li> </ol> </li> <li>Roadmap for the next 5 months of roll out.</li> </ol>
2	Final vehicle-based ALD roll out report	31/03/26	<p>The report should set out:</p> <ol style="list-style-type: none"> <li>Vehicle-based ALD capacity vs re-opener targets: <ol style="list-style-type: none"> <li>Number of units purchased,</li> <li>Number of units mobilised,</li> <li>Length of network surveyed,</li> <li>Follow on interventions commissioned.</li> </ol> </li> <li>Progress update on emissions estimation method capability.</li> </ol>
3	Mobilisation of full LP/MP network coverage capacity	31/03/26	Evidence showing survey capacity.

## **Appendix 3 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](mailto: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 share your personal data with third parties.

#### **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 twelve months after the project is closed.

#### **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 3<sup>rd</sup> 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.**

**10. More information** For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".