

Reference

Cadent response to Call for Input – Exercising Consumer Choice: A review of the gas disconnections framework

Date

7th March 2025

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Dear Team,

I am writing in response to Ofgem's open letter on the review of the gas disconnections framework, published on the 13th January 2025.

This is an extremely important issue to address for our customers and a policy area that spans Ofgem, Health & Safety Executive (HSE) and the Department for Energy Security and net Zero's (DESNZ's) remits.

The problem statement

We believe the prime issue is not necessarily about the current cost of the disconnection process but more about the efficacy of the framework itself as it was designed for a situation where disconnections were a low volume activity.

There are currently two routes to enabling a disconnection from the Gas Distribution Networks (GDNs), which historically have different processes, parties involved and cost recovery responsibilities.

- A. An end consumer request for a service disconnection (which is termed the "voluntary" approach in the consultation) which the end consumer pays directly for and;
- B. A disconnection >12 months following a meter removal or disablement, through the Gas Safety (Installation & Use) Regulations (termed the "Health & Safety" route in the consultation) where the costs are socialised over all gas consumers.

We believe this is a real source of confusion to customers wanting to undertake the process and may not be leading to the best outcomes for the wider customer base either. Eighty percent (80%) of the current disconnections are being undertaken through process B which is not charged to the end customer triggering the disconnection, so it is unclear what impact the pricing (which would apply under Option A) is currently having on the desire to disconnect. In addition, the majority of costs are falling on the remaining gas consumers and hence there is also the question of the impact this has on affordability especially in the context of other policy costs which are being considered to be added to gas consumer bills. The remaining gas customers are also left with the future stranding costs.

Currently these issues may not be visible as we are only seeing small numbers of disconnections (indeed the overall number of supply points on our networks

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has grown over the last three years as new connections and supply point registrations have outstripped disconnections). However, this trend is declining and there are scenarios which suggests that disconnections may rise significantly. Hence this is an optimal time to consider the framework and ensure that it is effective for all customers and future proofed.

The key policy to determine

We therefore believe the key is to clarify, simplify and bring consistency to the framework itself, which will require policy decisions from Ofgem, the HSE and DESNZ. The key elements to determine in designing a more effective future disconnections framework are:

1. Clarifying what is required to safely disconnect customers from the network

There is currently a live discussion between the GDNs and the HSE regarding the interpretation of Gas Safety (Installation and Use) Regulations GS(I&U)R. This discussion could result in the need to take action to address a legacy portfolio of service pipes across all areas. The GDNs are currently working to develop a new efficient approach that satisfies the intent of the regulations that is acceptable to the HSE. This might dictate whether the existing two disconnection processes could be merged into one, what any parties carrying out the activity must do and what might be required in terms of review of the GS(I&U)R. It is important for Ofgem to factor this into the review.

2. Where should responsibility for the costs of the service disconnection lie?

There are real public policy issues to consider in relation to how disconnections are paid for. For example, to what extent should the principle of cost reflectivity be applied such that the leaving customers pay the costs and those customers remaining do not incur a larger burden? Or is there a need to socialise some or all of the costs (by spreading the costs over either the remaining gas users, electricity users or the public through taxation) in order to better incentivise parties to disconnect?

In addition to the costs of physically disconnecting the service, the review of the responsibility for cost recovery should also consider how stranded Regulatory Asset Value (caused by the disconnecting customer) should be recovered. Without any intervention, these costs would again fall on the remaining gas customer connected and hence if disconnections were to increase significantly, this would leave an additional burden on those remaining gas customers.

This requires careful consideration as to what public policy outcomes are sought and what impact this has on individual and different classes of customers.

3. What role competition can play and how this may differ in a customer led or strategically planned approach?

Currently there are few disconnections that are being planned in a coordinated way across customers, and they are instead being triggered by customer choice. There is currently a role for competitive providers under route A and nothing, as far as we can see, stopping suppliers appointing other providers to GDNs under route B. The likelihood and role of competition needs to be assessed against the current background of piecemeal and independent disconnections. However, with the development of local area energy plans, heat networks and national and regional strategic energy plans, the future framework and roles required may need to reflect a more planned approach with multiple customers affected.

Our proposed way forward

Our recommendation is that following this call for input, Ofgem could convene a cross sector working group involving the gas distribution networks, Independent Gas Transporters, energy suppliers, representatives of utility infrastructure providers, the HSE and DESNZ to consider these questions and assess options. We are keen to provide as much assistance as possible to this process to define options and support their assessment.

The annex to this letter provides our answers to the 35 questions detailed in the Call for Input.

If you would like to discuss any of our comments further, please contact jodi.gerrella@cadentgas.com.

Yours sincerely,

[by email]

A handwritten signature in black ink, appearing to read 'A J Ball', followed by a horizontal line.

Dr Tony Ballance

Chief Strategy and Regulation Officer



Annex – Cadent’s response to the Call for Input

This commentary answers questions 1-8 and 10.

The current gas disconnections framework

- 1. How effective is the current gas disconnections framework in protecting the consumer interest, assisting net zero goals and promoting economic growth?**
- 2. What factors impact the effectiveness of the framework in achieving its objectives?**
- 3. What factors impact the efficiency of the framework in achieving its objectives?**
- 4. What other factors beyond those impacting the effectiveness and efficiency of the framework (dealt with in questions 2 and 3), for example, safety, financial, commercial factors, ought Ofgem consider as part of its review?**
- 5. What factors do you believe will impact demand for gas disconnections?**

A future gas disconnections framework

- 6. What are the potential future regulatory frameworks, regimes or mechanisms that should be considered for gas disconnections that would operate effectively, assist in achieving net zero and protect consumers?**
- 7. Of these potential future frameworks, regimes or mechanisms which is preferable and why?**
- 8. Are there any impediments inherent in the potential future regulatory frameworks, regimes or mechanisms identified in response to question 6 above that would affect their effective operation, the achievement of net zero and/or the protection of consumers?**
- 10. Is there anything else we ought to consider that has not been covered in your responses to questions 1-9?**

We believe that the current framework that offers two routes to disconnect from the gas network (“Voluntary” and “Health and Safety” disconnections as termed in the consultation) should be refined to fully support Ofgem’s definition of effective (protecting the consumer interest, assisting net zero goals and promoting economic growth).

We believe that a more effective process could be defined through policy decisions which:

- A) clarify, simplify, and bring consistency to what work is required to be done to safely disconnect a service.
- B) bring clarity and consistency on who should pay for the costs of disconnection and any associated stranding of Regulatory Asset Value costs.
- C) enable parties to deliver the service specified in point A against the different scenarios of a piecemeal individual customer led process and a potential future more strategically planned approach involving multiple closely located customers.

The key factors that are causing an impact on the effectiveness of the current framework are

1. There is more than one process a customer can follow, which can be confusing and also has very different financial implications.

Each process starts with the customer requiring their meter to be removed by their supplier.

The drivers for this may dictate which route the customer goes down. If they wish just to avoid the Standing Charge for a period (or potentially they are disconnected as a result of a bad debt) they might reconnect at a future date and hence not request a “voluntary” disconnection and instead follow the “Health and Safety” GS(I&U)R route. Customers tend to avoid going down the “voluntary” route unless they need to remove the service fully at a specific time (for example to facilitate building works or demolition). This results in more costs being socialised to the remaining gas consumers than being recovered from the parties triggering them. With an increasing volume of potential disconnections, this could leave a significant burden on remaining customers (including those not able to disconnect).

The “Health and Safety” GS(I&U)R process is also not a streamlined process with multiple parties involved from the supplier managing data and initial contacts with the customer, to interactions much later (>12 months) with a network company fulfilling the suppliers duties under GS(I&U)R. Disconnection activities after 12 months, also create consumer challenges in that they may not have been properly advised of this necessary process. We frequently experience difficult situations with consumers who were not aware that the work was necessary and would prefer it to not happen. The challenges of maintaining accurate and up to date information with customers changing homes and suppliers is also a challenge in this process.

2. The requirements to safely disconnect customers has evolved, which impacts the required work and the costs of the two processes

The discussions between the GDNs and the HSE and the GDNs’ work on the development of new disconnection processes are ongoing, the outcomes of which may impact on future disconnections as well as the legacy portfolio of previous disconnections.

3. The framework and processes were designed for a small number of piecemeal requests and an enduring use of the gas distribution network as a whole

The consideration of the balance of socialisation and direct charging has grown from disconnections being a marginal activity with little volume and hence it not making a material impact on overall bills or number of customers. With a potential increasing trend, the charging issues are material. For example, assuming that heat pumps deliver according to the FES Electric Engagement pathway (1.1m heat pumps installed by 2031) and that each lead to a disconnection from the gas network (at the average disconnection cost of £2,300 in 2030 quoted by Ofgem), the remaining gas consumers would need to fund an additional £2bn for socialised disconnection costs.

The piecemeal nature of the disconnection seen to date also does not seem to have made it attractive for third parties’ competition as there are little opportunities for scale or certainty to be reached as a service provider.

Consideration for Ofgem

1. Process reform

It would be preferable to only have one disconnection process that safely meets consumer requirements. We suggest that Ofgem and parties continue to work with the HSE to reach clarity on safety requirements and consider whether the two processes can be merged into one to help clarity with customers.

We have included in Appendix 1 a number of case studies that describe some distinctly different disconnection scenarios that regularly occur within our networks. These describe the work that needs to be completed and illustrates why it is important that a clear requirement for disconnections is defined. The process must flow effectively from the point of a customer requesting the disconnection, through to the safe and efficient delivery of the disconnection. The process should also be clear on which party holds the obligation to disconnect, what is

their trigger to act, and what works are required.

The review should also consider how would this be enacted through changes to the Gas Safety (Installation and Use) Regulations and Gas Distribution Licence 4B connection charging methodology statements and equivalent IGT statements.

2. Defining policy on who should pay the costs of disconnection and any associated stranded Regulatory Asset Value

Should the costs be targeted at the triggering party or should some or all be socialised. If socialised - what is the fairest apportionment between remaining gas users, alternative energy users (such as electricity or heat networks) or should the costs be recovered from taxation as part of a wider social tariff for net zero transition.

We believe this should be considered in the wider context with DESNZ around how net zero transition costs are being recovered across gas and electricity consumers and the public through taxation.

3. The role of competition

The review should consider what is the right role for competitive providers in a customer led disconnection process and whether roles and responsibilities should change if a more strategically planned route is followed through a local area energy plan or national or regional strategic energy plan.

The level of consumer choice differs under each of the current processes. GDNs complete all works under GS(I&U)R on behalf of suppliers (albeit we are unaware of anything preventing suppliers from appointing UIPs to do this). Accredited UIPs are permitted to perform “voluntary” disconnections on GDNs’ networks. The future disconnections framework needs to be clear on which parties are able to complete disconnections, and any current barriers need to be addressed should competition be desired.

The review could also consider whether there are any barriers to third party competitors from providing the service.

We are not aware of anything that is preventing third parties from offering disconnections services (other than their limited volume to date and piecemeal nature). It would be useful to understand if there are any things that might help this further (for example, street works requirements under the NRSWA).

How will demand evolve?

To date, we have seen a low level of disconnection activity. There remains a net positive increase in supply points onto the gas network, with more customers supply points being created than removed. Approximately 4 in every 5 disconnections are completed under the “Health and Safety” GS(I&U)R process.

Summary of completed disconnections across all Cadent networks (taken from RIIO-GD3 BPD1 M8.10 Disconnections)

| | 2022 | 2023 | 2024 |
|-------------------------------|--------------|--------------|---------------|
| Voluntary | 2,175 | 1,880 | 2,212 |
| Health and Safety GS(I&U)R | 6,742 | 7,031 | 12,644 |
| Total | 8,917 | 8,911 | 14,856 |

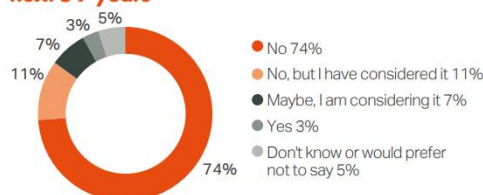
The key factor that is likely to drive change is the scale of Government incentives to encourage

substitution of gas heating and cooking with alternative forms of energy such as heat pumps or district heat networks. In addition, this would also have to be supported by the ability of alternative infrastructure providers to support the heat demand that would be required by customers switching. In terms of incentivisation, the decision on how disconnection costs for gas services will contribute to the customers' decisions.

We do not anticipate, with current incentives and the capacity of current electricity infrastructure, that some of the exponential increases assumed in some of the FES scenarios will take place on the trajectory defined.

Insight we gathered as part of developing and testing our plans for the RII-GD3 price control period suggested only 3% of those surveyed planned to make a change to their heating appliance in the next 5 years and 85% had no plans to change at all. See excerpt below.

Figure 14: Only 3% of customers are planning on changing the way they heat their homes in the next 5-7 years



Are you planning on changing the way you heat your home in the next 5-7 years?

Hence this suggests there is some time to assess the different options and design a regime which is future proof and delivers the objectives set out in the call for evidence.

9. For the purposes of this Call for Input, we have defined 'small businesses' as those with an annual gas consumption of not more than 500,000 kWh. What are the implications, if any, of using this definition?

According to the latest industry gas rates (per kWh) for business, gas suppliers define a "small business" as having an annual usage between 15,000 – 30,000 kWh (on average), and a large business is measured at 65,000+ kWh (on average). Therefore, using a definition of 500,000 kWh would mean that large businesses as well as small businesses would be captured. Looking at the latest supply point data, we approximate that approximately 99.8% of consumers on Cadent's have an annual usage that is below the 500,000 kWh threshold.

Process

11. What is the step-by-step process for carrying out a gas disconnection and the role(s) of each party involved in the process?

There are two processes under the current framework; "Voluntary" in which the customer directly requests the disconnection from the GDN; and "Health and Safety" GS(I&U)R in which the supplier will remove the meter (usually at the customer's request) which then triggers a regulatory timeline. These two processes are summarised below, and more detailed case studies of various circumstances are detailed in Appendix 1.

“Voluntary” disconnections



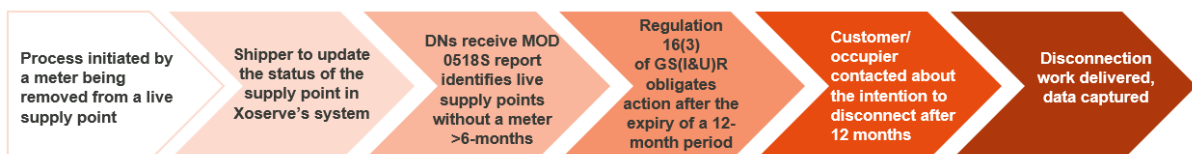
A “voluntary” disconnection starts with a customer contacting Cadent requesting to disconnect from their gas supply. Initial contact between customers and Cadent can be initiated through a customer filling in our online application form or with a customer calling us directly to discuss their requirements.

Upon confirming the request to disconnect, the customer is prompted to discuss their disconnection plans with their gas supplier and arrange for their gas meter to be removed. There may be cases where customers contact their gas supplier and have their gas meter removed prior to contacting Cadent. While this would trigger the “Health and Safety” GS(I&U)R process, as the customers follow it up with a “voluntary” disconnection, this will void the need for a health and safety disconnection.

Customers who do require the service to be removed are provided with a quote for the cost of disconnection. They will have up to 90 days to send in their signed acceptance and pay for the works. When Cadent receive the signed acceptance, we will agree a start date for the work with the customer.

Prior to work start, a site visit will be arranged to discuss the customer’s requirements and the disconnection options that may be available. This site visit will support the planning for the disconnection work. On average, the planning requires 6-8 weeks from payment to carry out the work, which will be planned in and completed by Cadent operational teams.

“Health and Safety” GS(I&U)R disconnections



A “Health and Safety” GS(I&U)R disconnection process is triggered when a gas meter is removed. In most cases, the gas supplier will remove the gas meter and cap the Emergency Control Valve (ECV) after receiving a request from the customer. Following the removal of the meter, the gas supplier will notify the gas shipper registered to the property that there is no longer a need for the shipper to procure gas on behalf of the supplier and purchase network capacity from the relevant GDN/NTS.

Upon receiving a meter removal notification from the supplier, the shipper will update the status of the supply point in Xoserve’s system to “capped” or “clamped”. This can be viewed as the start of a timer, where the GDN (on behalf of the gas supplier who owns the duty under GS(I&U)R) is instructed to disconnect the property after a period of twelve months.

GDNs receive “Health and Safety” GS(I&U)R disconnections data from Xoserve at several points in the process. Firstly, the GDNs receive a report of all “capped” or “clamped” supply points that have had a meter removed for a period of six months. The GDNs use this data as a forecast of upcoming “Health and Safety” GS(I&U)R disconnections, and gas shippers have a responsibility to interrogate the report and ensure that all properties are still without a gas meter (i.e. do not wish to use gas). The GDNs then receive data from Xoserve on supply points that have had a meter removed for longer than twelve months. The networks plan and deliver

disconnections to satisfy the GS(I&U)R regulations at these properties.

At any point during the period between the status being updated to “capped” or “clamped” and twelve months elapsing, the reinstallation of the meter or the installation of a new meter will void the need for a “Health and Safety” GS(I&U)R disconnection.

Our Customer Experience Centre is responsible for monitoring and identifying sites where the meter has been removed, carrying out system checks to determine the status of the gas supply and confirming if any action is necessary to make the supply compliant with the GS(I&U)R.

Approaching the 12 months mark, letters will be sent out to notify the last known supplier and the customer/occupier of the intention to disconnect after the meter has been removed for more than 12 months. The customer will be informed of any planned site visit to survey the property and the date and time of the disconnection work.

The operations team is responsible for the physical disconnection and determining the action required depending on the situation and position of the assets onsite. There are a range of potential actions that are considered in each case, including cutting off at the main (which is preferred) to isolation at the valve.

In some cases, the operational team are unable to gain access to the property and occasionally it may be necessary to obtain a Warrant of Entry under the Rights of Entry (Gas and Electricity Boards) Act 1954. The Cadent Legal team would be consulted to ensure sufficient evidence exists to support the warrant process.

12. What, if any, ancillary services are impacted by the disconnection process (e.g. renovators, appliance technicians etc)? What/who are they, and what impact could any change to the disconnection framework have on them?

We have no impacted ancillary services, other than the effect of changing work volumes on our supply chain.

Historic and future volumes of gas connections and disconnections

13. How many domestic health and safety disconnections for households and small businesses have been carried out over RIIO-GD2 to date? What is the anticipated number to be carried out in 2025 - 2026 and over RIIO-GD3 and up until 2035?

Over the first 3 years of RIIO-GD2, we have carried out 26,417 “Health and Safety” GS(I&U)R disconnections. The annual profile of these volumes and our anticipated number to be carried out in 2025-2026, over RIIO-GD3 and up until 2035 is populated in the data template. However, more context around our anticipated volumes is explained below.

During RIIO-GD3 there is significant uncertainty over the likely number of disconnections from the Gas Network and therefore the number of disconnections that will be delivered under GS(I&U)R.

Therefore, our approach towards forecasting future volumes and costs involves two scenarios.

Scenario 1 – Current trend continues (BAU)

In our RIIO-GD3 business plan, a common approach was agreed between GDNs at the instruction of Ofgem to forecast based on the assumption that the current workload trends we have seen in recent years will continue. The volumes entered in the M8.10 Disconnections BPDT are based on this rationale, and the forecasts beyond 2031 provided in this response reflect this as well.

However, due to varying levels of uncertainty there is a possibility the volumes of

disconnections under GS(I&U)R could increase significantly beyond the numbers included, and funded, in our baseline.

Scenario 2 – Uncertainty around Future Government Policy

We have proposed that a new common volume driver uncertainty mechanism is used in RIIO-GD3 to adjust allowances where disconnections delivered under GS(I&U)R exceed baseline workload. We have derived a plausible high case outcome in the M8.14 Bespoke, Uncertain, Separate (BUS) BPDT submitted in our RIIO-GD3 business plan.

The assumptions used for this are detailed in our Business Plan Data Table Commentary (page 139).

Total “Health and Safety” GS(I&U)R disconnection volumes expected for scenarios 1 & 2 RIIO-GD3 Profile

| | 2027 | 2028 | 2029 | 2030 | 2031 | RIIO-GD3 |
|-------------------|--------|--------|---------|---------|---------|----------|
| Scenario 1 | 13,972 | 14,333 | 14,707 | 15,093 | 15,491 | 73,596 |
| Scenario 2 | 59,453 | 80,835 | 108,102 | 134,749 | 147,647 | 530,787 |

14. What factors, if any, could impact the anticipated number of health and safety disconnections for households and small businesses to be carried out over RIIO-GD3 and up until 2035?

Cadent are yet to experience a marked increase in the number of customers seeking to disconnect from the gas network through either the “Voluntary” or “Health and Safety” GS(I&U)R routes. In our RIIO-GD3 business plan submission, a common assumption was agreed to roll forward the current trend with only gradual increases across the price control, with the inclusion of a volume driver uncertainty mechanism to enable GDN response to increasing volumes. It should be noted that there isn’t an immediate link between a customer changing their heating system and no longer using their gas service, as some will wish to retain the gas supply for other reasons including cooking, hot water, or as a back-up.

In terms of the factors that could cause the rate of “Health and Safety” GS(I&U)R disconnections to increase above our forecasted rate, variables such as Government policy changes, energy prices, standing charges, and consumer affordability could all influence households’ decision to leave the gas network.

Although subsidies and grants already exist, the cost of installing low-carbon technologies remains comparatively high compared to gas boilers. A greater volume of households may elect to disconnect from the gas network in favour of alternative heating sources if the price of installing a heat pump and the associated radiators/insulation becomes more viable. However, for many households, gas central heating still represents the most economical choice for heating their home.

Whilst the focus of this consultation is managing increasing volumes of disconnections, for completeness, consideration should be given to the benefits of retaining gas services where feasible and avoiding the complexity and cost of a disconnection.

Finally, Cadent, the other GDNs and IGTs are in ongoing dialogue with the HSE on future and/or historic disconnections delivered under “Health and Safety” GS(I&U)R process, the outcome of which may affect the volumes of future service pipe removals.

15. How many voluntary disconnections for households and small businesses have been carried out over RIIO-GD2 to date? What is the anticipated number to be carried

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out in 2025 – 2026 and over RIIO-GD3 and up until 2035?

Over the first 3 years of RIIO-GD2, we have carried out 6,267 “voluntary” disconnections. The annual profile of these volumes and our anticipated number to be carried out in 2025-2026, over RIIO-GD3 and up until 2035 is populated in the data template.

16. What factors, if any, could impact the anticipated number of voluntary disconnections for households and small businesses to be carried out over RIIO-GD3 and up until 2035?

Based on RIIO-GD2 averages, Cadent currently completes four “Health and Safety” GS(I&U)R disconnections for every “voluntary” disconnection. Historically, the key differences between “Voluntary” and “Health and Safety” GS(I&U)R disconnections, is that customers can have their service disconnected in significantly faster timescales, and as close as practicable to the parent main under the “voluntary” process. These features are usually beneficial for customers seeking to conduct demolition/redevelopment works.

Should the current framework endure, we anticipate that customers seeking to facilitate building works will continue to use the “voluntary” disconnections process over RIIO-GD3 and up until 2035; and that this volume will remain flat year on year. We believe that customers electing to disconnect from the gas network for other reasons (such as transitioning to low-carbon technologies or seeking relief from standing charge) will likely continue to utilise the “Health and Safety” GS(I&U)R disconnections process.

17. How many of the voluntary disconnections for households and small businesses carried out over RIIO-GD2 were deemed to be non-standard (e.g. ‘Sufficiently Complex’) works, by which we mean those works defined as such in your Connection Charging Methodology?

Over the first 3 years of RIIO-GD2, we have carried out 5 “voluntary” disconnections which are deemed to be non-standard (e.g. ‘Sufficiently Complex’). The annual profile of these volumes and our anticipated number to be carried out in 2025-2026, over RIIO-GD3 and up until 2035 is populated in the data template.

18. How many gas connections for households and small businesses have been carried out over RIIO-GD2 to date? What is the anticipated volume to be carried out in 2025-2026 and over RIIO-GD3 and up until 2035?

Over the first 3 years of RIIO-GD2, we have carried out 37,986 gas connections. The annual profile of these volumes and our anticipated number to be carried out in 2025-2026, over RIIO-GD3 and up until 2035 is populated in the data template.

Costs

19. What costs are incurred in carrying out a health and safety disconnection or voluntary disconnection for households and small businesses?

Our unit cost rate for delivering a “Health and Safety” GS(I&U)R disconnection is made up of:

- a direct operational cost

The direct cost is derived using the time taken to complete the activity, the hourly rate of the labour resource and supervisory staff, and the cost of a vehicle (including running costs and maintenance), tools, equipment, and other consumables.

- other direct costs

This relates to the costs directly involved with supporting the delivery of the activity which includes costs to survey the works, administrative costs for back-office staff managing the quotation, and associated property costs based on their primary work location.

- and an allocated overhead

The allocated overhead consists of costs that are indirectly involved and support the activity more broadly, via the operation of the day-to-day business operations. These are activities which take place in shared service business functions such as IT, property, safety.

All are impacted by the scale of works required. Entering a specific figure in the data template provided is not viable as this work is not costed on a job-by-job basis.

20. What is the average cost of a health and safety disconnection for households and small businesses?

- (i) The average cost for each year of RIIO-GD2 to date, any changes in average cost over the course of RIIO-GD2 and the reason(s) for these changes

The average cost of a “Health and Safety” GS(I&U)R disconnection does not differ whether it is being carried out on a household or small business premise. The main factors affecting cost depend on whether the engineer that attends isolates the gas service at the ECV/HET (simple) or fully disconnects at the main which includes excavation in the public highway (complex).

The average cost populated in the data template provided factors in the total volume of work delivered across all four of our Cadent Networks, and the work-mix being a combination of “simple” and “complex” jobs.

- **Simple:** Requires a single engineer using minimal parts and materials for a job that typically lasts approx. 1 hour. It should be noted that this scenario is not typical and would require the efficiency of the engineer being able to complete the works within an otherwise full day of work.
- **Complex:** Requires a two-person engineering team which will need the necessary parts and materials to excavate the ground and isolate the service at the main (or as near to as possible). Excavation in the public highway is also subject to street works costs due to the need for a permit as well as any traffic management arrangements (if applicable). Finally, backfill and reinstatement is needed after the isolation has been completed. The duration for this typically is between 0.5 to 1 day but can be much longer.

Unit rate cost difference between the two methods at a network level (in 2023/24 price base, rounded to nearest £)

| | EOE | LON | NW | WM |
|---|-----|-----|----|----|
| Unit Cost of a “Simple” “Health and Safety” GS(I&U)R disconnection | ■ | ■ | ■ | ■ |
| Unit Cost of a “Complex” “Health and Safety” GS(I&U)R disconnection | ■ | ■ | ■ | ■ |

- (ii) The estimated average cost in 2025-2026 (2023/2024 prices), during RIIO-GD3 and up until 2035 and the reason(s) for any changes

There are ongoing discussions with the HSE over whether further action will be required on historic/legacy “Health and Safety” GS(I&U)R disconnections where the service isolation has

taken place by using the ECV.

In our RIIO-GD3 Business Plan, we stated that an additional trigger is required within the HSE Policy re-opener to enable GDNs to request adjustment to their baseline allowances should undertaking a “Health and Safety” GS(I&U)R disconnection by utilising an ECV at an external service termination no longer be an option and if retrospective action is required on disconnections previously undertaken in this way.

In this event, the average cost of a “Health and Safety” GS(I&U)R disconnection will increase as the method used in the majority of cases would fall into “complex” classification shown in the above table.

- (iii) The number carried out over RIIO-GD2 to date incurring costs that exceeded the figure provided in answer to question 20(i) above?

The “Health and Safety” GS(I&U)R workload which is applicable to this question fall under what we have defined as “complex” in the earlier answer.

Over the first 3 years of RIIO-GD2, we have carried out 6,788 of these. The annual profile of these is populated in the data template.

21. In what circumstances has the cost exceeded the figure provided in answer to question 20(i) and are there any other circumstances where the cost would exceed the figure provided in question 20(i)-(ii)?

The costs provided are average, therefore actual costs will usually be either higher or lower. In particular, costs would exceed the figure provided in question 20(i) specifically when the “complex” “Health and Safety” GS(I&U)R method is being utilised, as the length of time to complete is longer with higher potential costs for reinstatement, street works and traffic management. There may also be a requirement for multiple visits if access is not available on the first attempt.

22. How and when are the costs of a health and safety disconnection for households and small businesses recovered?

The “Health and Safety” GS(I&U)R disconnection process triggered by regulations and is safety driven. As such, the cost of this work is currently socialised across all gas customers as part of the annual cost of running the gas network, paid for by customers remaining connected to the gas network. Under the current arrangements, most of these costs pass through to our transportation bills, as part of our Opex allowances, rather than being attributed to the Regulatory Asset Value (RAV) and recovered over a longer period. It should be noted that Cadent does not have a direct billing relationship with end consumers, and instead recovers its allowed revenues from shippers, via transportation charges. Cadent are not party to shippers’ and suppliers’ arrangements for how they pass through and recover the costs of network charges.

It is also important to note that in the current price control we receive a baseline funding to deliver disconnections, but if volumes were to increase beyond historic levels there would be a gap in funding. As such, our RIIO-GD3 business plan contains a proposed volume driver in case there is some additional increase.

23. Is there a cap on the maximum total cost to be incurred in carrying out a health and safety disconnection for households and small businesses and if so, what is the cap?

As a safety driven disconnection, there is not a cap on the maximum cost that a GDN can incur when delivering a “Health and Safety” GS(I&U)R disconnection to a household or small

business. Under the current arrangements, GDNs discharge suppliers' obligations that GS(I&U)R places upon them, and our primary concern is ensuring compliance with the regulations. For instance, this may require the GDN to incur additional costs to obtain street works permits to disconnect the service in the highway or sourcing a legal warrant to gain access to a vacant property to verify the safety of the service and disconnect.

24. What is the average cost charged for a voluntary disconnection for households and small businesses, including:

The answers to questions (i), (ii) and (iv) will be submitted in the data template provided.

For question (iii), the volume of "voluntary" disconnections that we deem to be non-standard (e.g. Sufficiently Complex) works are very low (ranging from 1-2 per year) with varying charges dependent on the complexity of the work involved. These types of jobs are outliers within the overall "voluntary" disconnection workload, so an average of these charges would be misleading. The complexity of the work involved is explained in more detail in our answer to question 25.

25. In what circumstances would the cost exceed the figure provided in answer to question 24(i) above and are there any other circumstances where the cost would exceed the figure provided in question 24(i)-(ii)?

The charged costs provided are average, therefore actual costs charged can be either higher or lower. Costs will be higher in cases that we deem to be non-standard (Sufficiently Complex) are determined as such, when the pipe diameter exceeds 6" MET / 180mm PE.

Typically, there will be a deeper excavation required to expose the main which increases the duration of time taken, as well as increased reinstatement costs. When the excavation depth is larger, there is an increased risk of encountering other underground plant (e.g. water, electric cables) so this must be undertaken with careful consideration to avoid unintended damage and supply interruptions to other utilities.

Traffic Management (TM) requirements are also impacted as the likelihood of requiring something like a lane closure (lasting multiple days) is higher due to the increased amount of public highway these excavations (and associated safety measures) can take up. These type of TM arrangements usually require a Temporary Traffic Regulation Order (TTRO) to be submitted to and agreed with the local authority.

The cost chargeable to the customer will be higher than the average standard methodology job for the quotation to be cost reflective of the work involved.

However, due to the very low volumes received overall in RIIO-GD2 to date, the overall costs incurred for a "voluntary" disconnection in the RIIO-GD3 M8.10 Disconnections BPDT are more in line with the standard methodology, as this is where most of the workload is.

26. How and when are the costs of a voluntary disconnection for households and small businesses recovered?

When a "voluntary" disconnection is requested by a customer, they receive a quotation detailing the cost of the work that is chargeable to them. The quote is valid for 90 calendar days before it expires. If they choose to proceed with the works, they will make payment, and their request will progress through to the planning & completion stage.

Even though we have received the customer's payment at this point, the costs recovered via this payment are not final until the disconnection has been completed and the site confirmed

as clear.

Until this happens, the customer can choose to cancel their request and if they do, they will receive a full refund.

27. Is there a cap on the maximum total cost to be incurred in carrying out a voluntary disconnection for households and small businesses and if so, what is the cap?

There is no cap on the maximum total cost that we will incur in carrying out a “voluntary” disconnection.

28. How are the costs incurred for work designed to enhance your system and which are additional to those required to fulfil the requirements of a voluntary disconnection request separated out from the costs incurred in fulfilling the request?

We do not carry out work designed to enhance our system in adjacent to any disconnection work.

29. How (if at all) do costs of gas disconnection for households and small businesses differ depending on:

- (i) connection type;*
- (ii) consumer type (i.e. household or small business);*
- (iii) complexity of the works (i.e. standard / non-standard works);*
- (iv) time taken to complete the works;*
- (v) headcount;*
- (vi) provider type and size (i.e. the provider of the gas disconnection works, for example, a UIP, GDN or IGT);*
- (vii) geographical location (for example, urban, regional, and remote);*
- (viii) level of competition present in the market for the supply of gas disconnection services; and*
- (ix) any other factors that do not fall under (i)-(vii)?*

There is no specific difference between the costs for disconnecting a household or a small business. The costs increase according to the complexities of the work required, but an increase in complexity is not directly linked to the type of property.

30. Can you estimate what proportion of your network is made up of pipes with the following diameters: <=63mm PE13 / 2” met14; 90mm PE / 3” met; 125mm PE / 4” met; 180mm / 6” met; >180mm PE or >6” met?

At an overall Cadent level, we estimate that over 99% of our network is made up of pipes which are <=63mm PE / 2” MET.

The network level breakdown for all pipe diameters is populated in the data template.

Factors affecting the gas disconnections framework

31. What factors affect demand, supply and competition in gas disconnections, including the extent and existence of practices and strategies in response to the existing disconnections regulatory and policy framework?

Our responses to questions 14 and 16 contain information on factors that could influence future volumes of both “Voluntary” and “Health and Safety” GS(I&U)R disconnections, and the potential differences in drivers for demand for each disconnection route – e.g. government policy, affordability, HSE regulatory changes, and building works.

There may be differences in the factors that impact the supply of gas disconnections across the two “Voluntary” and “Health and Safety” GS(I&U)R workstreams. For example, Cadent recovers the costs of delivering “voluntary” disconnections up front at the point of the

requesting customers paying their quotations. Up-front cost recovery presents fewer challenges to providers in being able to supply disconnection services. However, GDNs experience a delayed recovery when reimbursed for the costs of delivering “Health and Safety” GS(I&U)R disconnections - see response to question 22 for more information. Should “Health and Safety” GS(I&U)R disconnections volumes increase, it is important that GDNs (or potentially alternate providers in the future) have adequate and accessible funding to be able to meet greater demand.

There are practices and areas of the current framework that support competition. For example, Cadent permits accredited third parties to perform disconnection works on its network and signposts customers to alternate providers of “voluntary” disconnections at the quotation stage. Additionally, in accordance with our approved charging methodology, Cadent applies a margin to its charge for delivering an economic and efficient “voluntary” disconnection. “Voluntary” disconnections are open to competition, and the addition of a margin is designed to mimic the pricing of alternate non-regulated providers more closely such as UIPs. Delivering a service as cost-neutral in a competitive market could place alternate providers at an unfair disadvantage.

Although GDNs possess the necessary resources and competencies to effectively deliver “Health and Safety” GS(I&U)R disconnections, we are not aware of any restrictions within the gas safety regulations that would prevent gas suppliers from directly discharging their obligation or outsourcing the work to a third party. It is important to note that should a gas supplier elect to discharge their GS(I&U)R obligation through another means, GDNs would still be responsible under Pipeline Safety Regulations for any of our assets and would therefore require funding to ensure those assets are in a safe condition.

There are questions on whether the current framework optimises competition in the delivery of disconnections. The Gas Act grants statutory rights to gas transporters that allows them to lay, maintain, and remove pipes from Streets, removing the need to obtain a licence from the relevant highway authority. UIPs do not benefit from the same statutory powers, and the current drafting of the New Roads & Street Works Act (NRSWA) is not designed to give rights to UIPs to work on apparatus in a street owned by another utility company, unless acting in the capacity of a sub-contractor.

32. What impact do the above factors have on viability, quality, and profits of gas disconnection services?

The delivery of “Health and Safety” GS(I&U)R disconnections is driven by regulatory obligations rather than its viability to prospective suppliers. The regulatory framework is designed for GDNs to recover an amount of revenue equal to the costs they incur in delivering GS(I&U)R disconnections. Gas Suppliers hold the obligation to disconnect premises where a primary meter has been removed for a period of 12-months or longer under GS(I&U)R. Historically, GDNs have discharged this obligation on their behalf and have received regulatory funding to deliver the works.

Cadent does promote competition in “voluntary” disconnections and advertises accredited alternate providers to customers at the quotation stage. Most “voluntary” disconnections occur “organically” meaning that individual properties elect to disconnect from the gas network in isolation and there is no mass coordination or sequencing. This may affect the viability of “voluntary” disconnections to alternate providers, who may pursue larger schemes that are more commercially attractive.

We do not consider the factors of demand, supply, and competition to have a bearing on the quality of disconnection works. Irrespective of the route that customers elect to disconnect from the network through, Gas Safety (Installation & Use) Regulations define the standard that a party must meet when delivering the works. For Cadent’s purposes, GS(I&U)R Section 16

prescribes the activities that should be completed to safely disconnect the premises, and Regulation of 14 of PSR demands that the operator must ensure that a pipeline is left in a safe condition when its use has ceased.

Cadent does not apply a direct profit margin to the costs it incurs delivering “Health and Safety” GS(I&U)R disconnections on behalf of gas suppliers. As outlined in our response to question 22, the cost of this work is currently socialised across all remaining gas customers as part of the annual cost of running the gas network.

As referenced in our response to question 31, Cadent applies a margin to the costs it incurs to deliver an economic and efficient “voluntary” disconnection. The addition of a margin is designed to mimic the pricing of alternate non-regulated providers and enhances competition with UIPs more closely. The method for calculating the costs of delivering “voluntary” disconnections is outlined in Cadent’s 4B Connections Charging Methodology and is designed to achieve the relevant charging objectives.

33. What guidance have you made available to consumers on the gas disconnection process and the differences between a voluntary and health and safety disconnection?

“Voluntary” disconnections

- Customers are asked for their reason for disconnecting from the gas network at the “voluntary” disconnection application stage. Customers requiring a timely disconnection to facilitate building works are retained within the “voluntary” process, whereas customers seeking relief from the standing charge or switching to other fuel sources are provided with information on the “Health and Safety” GS(I&U)R process.
- We provide customers with a full overview of the gas disconnection customer journey and the information required by customers for the process, which is readily available on our website. Customers also have the option to call in for information on the process.
- We have an online indicative price tool readily available for customers to understand how much their disconnection would cost, and an estimator that provides an indicative lead time from a customer’s acceptance and payment to a delivery date for their disconnection works.
- Our “voluntary” disconnections process accounts for diverse needs including digital exclusion. Customers can apply for disconnection directly through our online form or over the phone with a member of our customer experience centre.

“Health and Safety” GS(I&U)R disconnections

- With a “Health and Safety” GS(I&U)R disconnection, the guidance provided to customers focuses on explaining the regulations that the disconnection is required under and arranging and delivering the works as per the obligation.
- Customer/occupier of the property will be notified via letter on the legal requirement for a physical disconnection after their meter has been removed and not re-fitted in 12 months.
- Cadent will arrange a site visit for visual inspection.
- Date of disconnection work to be confirmed/informed to customer/occupier.

34. Has any consumer research and/or testing been carried out to establish or improve the service and information you provide to consumers wishing to disconnect from the network? If yes, please provide information on the outcome of that work and any

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relevant documents and/or data.

Disconnections are not subject to regulatory customer satisfaction surveys under the current price control. Work continues amongst the GDNs and Ofgem to develop a disconnections customer satisfaction survey pilot in preparation for RIIO-GD3.

It should be noted that irrespective of the disconnection route chosen, a customer will first contact their Supplier to remove the gas meter. This interaction means that customers will also rely upon information issued to them by their Supplier when determining their route to disconnect from the network.

35. What are the barriers or impediments, if any, to consumers understanding the disconnection process and/or framework that are outside your control?

Research conducted to support our RIIO-GD3 business plan suggests that customers have low levels of understanding of the activities and costs that make up a disconnection from the gas network. As part of this research, we asked customers about their willingness to pay for gas disconnections and what they perceived to be a reasonable price. Our research found that over half of customers would not expect to pay for a disconnection. Those willing to pay perceived a reasonable price to be considerably less than all GDNs' current charges.

As indicated in our response to Q1 to Q10, we question whether the existence of multiple routes to disconnect from the gas network, with differences in costs and how those costs are recovered is optimal from a consumer standpoint. A clear definition of a single disconnection process may be beneficial in aligning activities across the sector and educating and managing consumers' expectations. This would ensure that the industry and consumers are better prepared to manage disconnections from the gas network in greater volumes in the future.



Appendices

Appendix 1: Case studies on different disconnection scenarios that regularly occur within Cadent networks

(i) Voluntary Disconnection

Before commencing disconnection work, a surveyor conducted an initial site visit to capture detailed data and assess the scope of the work required. During this visit, it was determined that the service needed to be disconnected at the main, which is located in the public highway. The findings from the site visit were then translated into detailed work orders. Given that the disconnection work was to be carried out in the highway, a street works permit was raised ahead of time. On the day of work a traffic management team was deployed to the site to set up barriers and close the footway. A repair team then arrived to perform the actual disconnection work, which involved safely cutting off the gas service, excavating within the customer's lawn and onto the footpath and removing the relevant sections of the pipeline. This activity took the team three hours. Once the disconnection work is completed and the service pipe has been removed, a backfill team was deployed to fill the excavation and restore the lawn. The following day, a reinstatement team attended site to restore the tarmac in the footpath. Once the reinstatement was complete the traffic management team attended to remove the barriers and traffic management equipment, and the work was complete.

(ii) Disconnection for Dual services

In this case, site visit identifies that the service is part of a dual service to the neighbouring property, work was done on the private properties. The neighbouring occupier was also informed of the date for the work, understanding that they would be off gas on the day. The repair team that came in to do the work was responsible for two tasks: (1) cut off and excavation work for the property that required disconnection; and (2) laying new supply to the neighbouring property. These activities took the team a full day. Once the repair team was finished with their work, an FCO came in to connect the meter for the property remaining on gas. The neighbouring property was off gas until this point. The following day, reinstatement team was deployed to attend to both properties. The cost of connection and reinstatement for the property remaining on gas was not charged to either of the customer disconnecting or remaining.

(iii) Disconnection in a multi-occupancy building

Disconnection request was identified to be a flat with no lateral valve in a multi-occupancy building (MOB) that still supplies gas to other flats. An FCO was tasked with carrying out the disconnection. The ECV valve was closed, sealed with an appropriate fitting, and labelled. Additionally, when disconnection request was identified to be part of a MOB, the Investment Planning Office needed to be involved. A MOB's network asset engineer had to confirm the MOB is recorded on the database and confirm the gas supply to the building was still marked as 'live' as there were still gas users in the building.