

Cadent ISG

Response to Ofgem on Draft Determination Consultation

August 2025

**Purpose of this Response**

This report has been produced by the Customer Challenge Group (CCG) for Cadent Gas, which as part of its remit, performs the role of the Independent Stakeholder Group as mandated by Ofgem from July 2024 onwards. The report constitutes the CCG’s response to Ofgem’s Consultation on its Draft Determination of Cadent’s RIIO3 Business Plan.

This report is a brief follow-up, given our substantial input in the Call for Evidence Jan-25 and does not duplicates any of that content here.

We intend this report to respond to only the key areas where we have a distinct perspective and knowledge and where we believe it to be in the interests of consumers and stakeholders – aligned with our remit.

To that end we have responses to the following questions:

1. Overview Document questions
   * OVQ1 (ISG role)
   * OVQ2 (EAP)
   * OVQ33 (innovation)
   * OVQ35 (cyber resilience)
   * OVQ36-38 (data & digitalisation)
2. Gas Sector Document questions
   * GDQ1 (environment)
   * GDQ2 (DPLA/ALD)
   * GDQ4 (RESP)
   * GDQ17 (MOBs/non-MOBs)
   * GDQ18 & 19 (streetworks)
   * GDQ20 (biomethane)
3. Cadent Document questions
   * CADQ5 (rejection - leakage)
   * CADQ6 (rejection – NZ transition)
   * CADQ11 (penalty – Stage C)
   * CADQ16 (data & digitalisation)
4. **Overview Document Questions**

**OVQ1. We would welcome any views on the enduring role of the ISGs during RIIO-3 and for future price controls**

We believe that there are six key areas that are important when considering the ISG role:

* 1. **Challenging the companies** on the creation of their Business Plans (both content and narrative)
  2. **Scrutinising and monitoring of performance** against the Business Plans (post go-live/the most useful points for ISGs to have input)
  3. **Identifying priority areas for scrutiny**, based on the degree of change required and potential impact on customers and stakeholders
  4. **Maintaining line of sight across key areas**, to understand the strategic context for each priority
  5. **Encouraging closer internal engagement** (e.g. through buddy groups within each company)
  6. **The role of critical friend** – understanding that this is a difficult to achieve.

It would be beneficial to have clarity over **what Ofgem want the ISGs to do**, as this can be different from what the companies want the groups to do. We believe that the ISGs have an important role to play and will be able to work more in-depth with the companies than Ofgem, who are there to regulate the companies.

We believe that our role in relation to **stakeholder engagement** is correct and it is useful to be able to point to the clear expectation from Ofgem to demonstrate the required ISG’s responsibilities.

However, Ofgem also advised in the guidance that they expect the ISGs to look at **culture** but did not explain what was specifically expected. If guidance on culture could be included, similar to that for stakeholder engagement[[1]](#footnote-1), this would help define what the expectation of the ISGs is from Ofgem. Again it would also be helpful to be able to point to this when agreeing with the companies how the ISGs will work with them and what the priority areas will be for ISGs.

The **ISG Chairs meetings have been productive**, and we would like to see these retained. However, when the ISG Chairs **meet with Ofgem** it would be good to have agreed Terms of Reference for these meetings and determine what the purpose for the meetings will be (recognising that this may change, depending on the stage of the Business Plan process and be different for each of the network sectors, relative to where they are in the process).

We would like to highlight to Ofgem that the ISGs go through a **journey of maturity** and unfortunately for RIIO3 the Guidance was issued quite late, meaning that all ISGs have likely struggled with maturity and this will have impacted on the groups’ opportunity to reach their potential. We therefore believe that there is plenty of ‘headroom’ to build the ability of ISGs to positively impact company and sector performance in the coming years.

In respect of the **evolution of the groups**, we believe that it is important to periodically refresh the skills in the groups, whilst recognising that there is benefit in having continuity of the people involved, in particular for building relationships that can genuinely shape change through constructive challenge. We suggest consideration of ‘maximum periods of service’ for members on the groups may be useful, although balancing this with continuity may be challenging in practice.

Finally, we believe that it is important that the ISGs can challenge the companies, but it is also important that the loop is always closed, with **company feedback** given to each ISG on what the company did (including when there was no change to the company’s approach), and the benefits, if any that they saw. This will help understand the benefits of investing in the ISGs, for the ISGs themselves, for the companies and for Ofgem.

**OVQ2. Do you agree with our proposed position on the Environmental Action Plan and Annual Environmental Report ODI-R for RIIO-3?**

We have two additional concerns we would recommend Ofgem consider before finalising their position.

Firstly the **ongoing challenge of standardisation**. The draft determination commits to a set of minimum requirements for KPIs. It is important that each network company: (i) uses a consistent basic set of KPIs; (ii) measures these using consistent methodologies, so that performance across companies can be assessed; and (iii) is based on a stated standard, so wider performance can be understood. By way of example of the current problem, we explain in our response to GDQ1 (below) the potential inconsistencies in the assessments of Business Carbon Footprint, which demonstrate the importance of standardisation.

Secondly, **incorporating wider sustainability considerations**. The Cadent ISG focuses on sustainability rather than environment because sustainability is a more holistic target. Sometimes actions that are positive for the environment can have negative social or economic consequences (the other two pillars of sustainability). It is not clear that such trade-offs, particularly where there are social consequences, are considered in the RIIO-3 process. Hence while the space to expand upon certain areas or provide information not included in the environmental reporting guidance is welcome, the most important task is to ensure that the wider implications of environmental decisions are considered.

**OVQ8. Do you agree with our approach taken to review of the Climate Resilience strategies?**

No we do not agree with Ofgem’s approach. We believe that the climate resilience methodology needs to be standardised and centrally coordinated via Ofgem and possibly involve the NESO. As per Ofgem’s update in April 2025, there is currently inconsistencies in Climate Resilience best practices across network operators, as well as across key agencies e.g. NESO, DESNZ etc. It is in the best interest of customers, in terms of costs and risks to services, to avoid the cost of replication or risks of parallel and non-compatible best practices. We would like to see climate resilience planning becoming a more centralised and standardised capability with a common framework, methodology and language. In partnership Ofgem should consider leveraging the existing work of the Department for Transport (DfT) and the National Digital Twin programme with respect to CNI integration and crisis response. Inconsistency across networks would be a source of future vulnerability, given the increasing need for integrated planning and response.

**OVQ33. Do you agree on the need to clarify roles and responsibilities within the innovation ecosystem, and the factors that we should consider?**

**No we do not agree**, we believe this initiative is very likely to lead to restrictions on new market entrants and emergent technologies, especially from other alternative critical national infrastructure markets. We believe that there is a risk in creating predefined roles and responsibilities for partners in the NIA/NIC process, as there will be a direct impact on costs; creativity will decrease and the energy sector’s access to support from other markets will decrease, as there will be more "gates" to engagement. In addition, it feels redundant in its intent given the programmatic approach which has been proposed by Ofgem, aims to ensure challenge-led initiatives across network operators with a coordinated oversight.

**OVQ36. Do you agree with our position of not changing the Digitalisation licence condition?**

**Yes**, we believe it is an important condition. However, we believe that the Data Best Practice Guidance should be **updated in terms of its requirements**, e.g. for Risk we would question whether the risk mitigation steps are still effective, given the availability of diverse data, reverse engineering analysis or integrating sensitised data towards breaching security, privacy and/or control.

**OVQ37. Do you agree with our proposed approach to the DSI licence condition?**

**Yes-But**. Yes, the DSI is a strategic initiative aligned with Regional Energy Strategic Plan (RESP) and accelerating the integration of enabling digital services and technologies. But, we would add that the interoperability and standardisation requirements should be **led by an agency with experience and independence** in terms of secure data management and information architectures (e.g. NPSA, NCSC). It is integral to design-in security from the outset and to fully resource it across both cybersecurity and Data and Digitalisation investments.

**OVQ38. Do you agree with our proposed design of the Digitalisation re-opener?**

We **do not believe that one reopener is sufficient**, given the need for Cadent to be responsive to emergent and collaborative learning with NESO, NDTP and other operators. New integration architecture standards are being created and it is vital to enable update, adaption or adoption of new requirements and enabling technologies.

1. **Gas Sector (GDN) Document Questions**

**GDQ1. Do you have any views on our proposed approach for the GD-specific environmental commitments, costs and targets?**

We support the request for a consistent approach taken by GDNs to measure and report their Business Carbon Footprints (BCFs), and have reviewed Cadent’s response.

However, we would like to **highlight three issues**. Firstly, “total emissions” is not a useful KPI for comparing the performance of each network as it does not reflect the size of each network. Emissions per customer and/or per pipe length would be more useful. Secondly, at least one GDN proposes using carbon offsetting to meet targets if necessary. This needs to be governed carefully to ensure the offsets are achieved and we are not clear how this would be done. Thirdly, the vast majority of GDN network GHG emissions are fugitive methane emissions from shrinkage, so these need to be reported and monitored carefully alongside the BCFs.

On shrinkage, while Ofgem considers GDN targets to be appropriately stretching, additional targeted investment in pipe replacement that is informed by new leakage detection technologies could make a **substantial further reduction in fugitive methane emissions**. For this reason, we feel that Ofgem’s decision to reject Cadent’s Advanced Leakage Intervention programme is a missed opportunity (see question CADQ5).

**GDQ2. Do you have any views on our proposed funding for the DPLA and ALD?**

We are pleased that Cadent’s programmes have been supported. Both of these programmes should make a major contribution to improving both network safety and reducing emissions. We would also note, that it will be important to manage the **impacts on Cadent’s workload** if the programmes identify substantially more leaks than current technologies have indicated.

**GDQ4. Do you agree with our proposal to enable the GDNs to submit RESP coordination and engagement activities through NZARD and NZASP?**

**Yes-but.** Yes, it is important as GDNs are required to engage with NESO to produce RESPs during the RIIO-3 period. But funding, and flexibility of funding, will be required. It is disappointing that there was a lack of clarity about NESO’s requirements from GDNs for the development of RESPs prior to the RIIO-3 draft determination. As the scope of the GDN contributions is unclear, the funding required is also unclear and there may be a challenge to ensure value-for-money for consumers in any work carried out by GDNs to contribute to RESPs.

Nevertheless, we are unclear whether NESO will not have the requisite models/skills for detailed GDN transition modelling in-house and will need to rely on the GDNs to provide these services. These activities are likely to be substantial and they need to be funded appropriately. Ideally these activities would be included in RIIO3 base funding if the scope of the work were clear, but that is not the case today. Instead, if they are funded through another route such as NZARD or NZASP, there is a need to:

* add additional UIOLI funding to cover the activities;
* ring-fence this funding; and,
* create contingency funding plans in case the additional funding proves insufficient.

Having reviewed Cadent’s response to this question, we would agree that their revised approach feels appropriate.

**GDQ17. Do you have any views on the proposed approach to setting unplanned interruption targets for both non-MOBs and MOBs through the Unplanned Interruptions ODI-F?**

We requested to see Cadent’s response to this, having had concerns ourselves about the issues of complex non-MOBs being put in together with ‘normal’ non-MOBs. We have nothing further to add to Cadent’s response and **support Cadent’s recommendations**.

**GDQ18. Do you have any views on the proposed expansion of the Collaborative Streetworks ODI-F across GB?**

We **support the expansion of the Collaborative Streetworks** RFI across GB. Streetworks are expanding as infrastructure upgrades are delivered across multiple services (water, telecoms and electricity). The cost of disruption to businesses and transport network users is significant, as is the social cost of disruption.  The areas covered by permitting and lane rental schemes are increasing, therefore collaboration may help reduce the costs of streetworks but also presents an increased risk of delay and penalty where there are more partners involved and therefore we believe a financial incentive is appropriate to help balance this risk.

**GDQ19. Do you have any views on the proposed minimum threshold, the methodology used to set it, and the incentive reward rate for the Collaborative Streetworks ODI-F?**

The number of combined authorities who can carry out the central co-ordinator role are increasing and this should open more of Cadent’s networks to the collaborative approach, with the opportunity to increase efficiency through working with other utilities.

In the case of new combined authorities or those with new central co-ordinators, we think some **additional costs** are likely to fall on the initiating utility, because central co-ordinators who are part of new combined authorities may need support from the utility to introduce collaborative streetworks. In addition, there will be a new need for early collaboration during the planning phase, so companies are all ready at the point they need permits and for when costs arise for closing traffic lanes. This could present a barrier to collaborative schemes.

We understand Cadent has proposed a threshold for applying the incentive where networks already have schemes and with no threshold for new schemes. We believe that where collaboration is mature a higher target is appropriate. In new areas an incentive for all schemes will help Cadent overcome initial barriers to collaboration. We suggest once collaboration becomes BAU in a specific area that the area should become part of the ‘mature’ group of central co-ordinators.

**GDQ20. Do you agree with the introduction of the proposed Biomethane Connections UIOLI, including with the proposed scope and funding caps?**

**No**. We, and in particular our Sustainability Challenge Group, believe the **current proposal is not fit for purpose, despite our support for the intention.**

We do agree on the **importance of biomethane**, as it provides a growing source of low-carbon gas in the UK. The UK Government foresees a substantial future role for biomethane, with 30-40 TWh production forecast in 2050 in the Biomass Strategy (2023). The Green Gas Support Scheme (GGSS) currently provides ongoing tariff support to biomethane-to-grid producers. It provides no investment subsidy and the tariff calculation model assumes a low cost of connection to gas networks and implicitly assumes no upstream network reinforcement is required. The Biomethane Connections UIOLI is designed to support new biomethane connections when applications to the GGSS are closed in 2028. We believe that there are a **number of issues with this approach**:

Firstly, **the role of this scheme within UK energy policy**. The UK Government has consulted on a scheme to replace the GGSS. Any support for gas networks should be consistent and coherent with new government biomethane policies, which are still in development. To address this issue, the scheme is stated to be for commercial plants that are not receiving other biomethane subsidies from the GGSS or other schemes. With this framing, it is not clear why a subsidy for gas connection should be provided. If a subsidy is appropriate, then it is unclear what evidence has been collected to show what level of subsidy is appropriate.

Secondly, the **incentives from such a subsidy could undermine the purpose of producing biomethane**. Eligible biomethane supported by the GGSS must have lifecycle greenhouse gas emissions that do not exceed 24g CO2eq/MJ biomethane, and impacts on land must be considered for some feedstocks. These criteria are governed through the tariff and Certificate of Origin schemes. The Biomethane Connections UIOLI could support biomethane production that does not meet these sustainability requirements. The lack of an ongoing tariff means that emissions would not be governed even if a commitment were made at the outset to meet the requirements.

Thirdly, **it is not clear why the same UIOLI funding is being set aside for each network company**, when some companies have much larger networks or are much more likely to host biomethane connections than others. Moreover, the proposed level of funding is unclear (£15m in the Summary of consultation position and £20m in paragraph 4.11).

We suggest that **Ofgem reserves the proposed level of funding (£20m/network) for the time being and works with the UK Government on a replacement scheme.** That scheme should appropriately incentivise new biomethane connections, which either account for gas connection and any network reinforcement costs or work alongside an Ofgem scheme that does.

Given that the impacts of biomethane on gas networks will vary between locations, it would be most efficient for GDNs to manage connections as a group to minimise the costs to consumers, rather than treating each connection individually. Where a connection would produce substantial CAPEX or OPEX costs for a network, it would be reasonable to **enable GDNs to negotiate how these costs would be reimbursed** and to refuse a connection where agreement could not be reached.

1. **Cadent Document Questions**

**CADQ5. Do you have any views on our proposal to reject Cadent’s Advanced Leakage Intervention programme and fund its non-mandatory repex programme based on the RIIO-GD2 approach?**

We, and particularly our Sustainability Challenge Group, believe that the proposal to reject Cadent’s Advanced Leakage Intervention programme **should be reassessed.**

Firstly, the **background rationale compels action** on methane emissions: The UK government has committed to reaching net zero emissions by 2050. The RIIO-3 period will be mostly covered by the UK’s Fifth Carbon Budget (2028-2032), which assumes reduced methane emissions through the Iron Mains Risk Reduction Programme. Yet there is particular global and UK concern about non-CO2 GHGs. In 2022, the UK signed the Global Methane Pledge to collectively reduce global methane emissions by at least 30% by 2030 compared to 2020 levels. In 2023, the COP28 agreement called on parties to accelerate and substantially reduce non-CO2 emissions globally, particularly methane emissions, by 2030. The Energy Act 2023 introduced a specific legal mandate for Ofgem to support the UK Government in meeting its obligations under the Climate Change Act 2008, including the 2050 net zero target and the five-year carbon budgets. It requires Ofgem to embed climate considerations into its core decision-making. With this backdrop we are unclear why Ofgem is minded to reject Advanced Leakage programme.

Secondly, **shrinkage makes a substantial contribution** to UK methane emissions. Option 1 in Cadent’s revised Advanced Leakage Intervention programme proposal (Tier 2A resubmission) would reduce methane emissions in the region of 40 ktCO2e/year. Assuming the accelerated roll-out replaced iron pipes 5 years earlier on average, the total emissions reduction would be around 200 ktCO2e, at a cost of moving forward planned IMRRP investment by 5 years (from RIIO-4 to RIIO-3). Cadent have demonstrated that the payback period meets regulatory expectations.

Thirdly, accelerating the programme would also provide **safety benefits to Cadent’s customers** by proactively replacing a greater proportion of the leakiest pipes on the network.

**CADQ6. Do you agree with our proposal to reject Cadent’s Net Zero Transition Planning proposal?**

**No we do not agree.** We recognise that NESO holds the responsibility for Regional Energy Strategic Planning (RESP) and that NESO’s RESP does not plan to duplicate work done elsewhere. However, the process to be used by the RESPs will place new **demands for information** on stakeholder organisations, such as local authorities, requiring new levels of expertise from these organisations.  We are not aware of local authorities having additional resource for this purpose. Therefore, we believe that leveraging and expanding GDNs’ existing relationships may support these organisations but at an increased commitment by the GDN across its local authority stakeholders. **Therefore in the interests of local authority stakeholders would like to see some funding allocated to GDNs delivering this commitment.**

Please see response to GDQ4 for further detail.

**CADQ11. Do you agree with our assessment results for Cadent against Stage C of the BPI**?

**No we do not agree.** We are concerned that Ofgem are proposing to **penalise Cadent** for including plans to create a template to expand their ‘Beyond the meter’ initiative. We feel Ofgem’s view does not reflect the potential to make greater use of the network companies’ unique position, nor is in the interests of customers and stakeholders, for two reasons:

* + The **‘beyond GDN remit’ response exposes a gap in policy and thinking around GDNs’ roles,** which remains currently unresolved. In the wider context of low carbon transition for domestic households, changing consumer vulnerability, and the emerging policy landscape around the Warm Homes Plan, we felt that initiatives such as Beyond the Meter could be playing a useful role. This is not least because GDNs are very large, capable, consumer facing, regional energy partners whose resources could be maximised to help customers whilst other solutions are being worked through.
  + We would not like to see companies being **discouraged from bringing forward ideas**, and whilst of course Ofgem will approve or reject the idea itself, openly penalising proactive behaviour could have the negative effect of inhibiting companies from making future innovative proposals. And we believe that this would be to the detriment of customers and the wider sector.

In addition, we wanted to note that Cadent were not asking for additional funding to continue their “Beyond the meter” work but instead wanted to explain their strategy (the cost of which would be absorbed into base cost allowance) as part of the wider Customer Vulnerability strategy, which is a priority both for Ofgem and the sector. We recognise that spending funds to help a limited number of customers in vulnerable situations could be viewed as contentious. However we do feel strongly that the risk of being penalised for even outlining a proposed approach carries a high reputational risk and may deter **company’s attempts to actively consider ways to help customers**. We consider that Ofgem could instead reject Cadent’s proposal without applying a penalty.

**CADQ16. Do you agree with our proposed level of funding for Cadent's data and digitalisation investments**?

**No** we **do not agree that the 40% cut (£12M) to the proposed Data and Digitalisation budget is justified or appropriate**. We believe that Cadent have clearly articulated the **internal operational requirements** of their Data and Digitalisation budget. In addition, they have clearly communicated how key elements of their plan, such as the request for the Unified Asset Investment Portfolio Management tool – would interface with **key external programmes** (e.g. RESP) lead by NESO. Further, given the emergence of the integration architecture (National Digital Twin Programme), ontologies for network integration, growing interactions with the NCSC etc., there is a need to recognise the resource request within the proposed plan, which enables Cadent to both help build capability within the sector, and ensuring its implementation within Cadent.

Furthermore, we believe that there will be a financial burden with respect to **building secure supply chain provenance** in the provision of data and digital technology products and services. This will restrict open market competition, and there needs to be a budget that accounts for increased cost and investment in building supply chain capability and capacity.

1. Ref: The Enhanced Engagement Framework in the RIIO-3 Business Plan Guidance, 30 Sep 2024 <https://www.ofgem.gov.uk/guidance/riio-3-business-plan-guidance> [↑](#footnote-ref-1)