

# Decision

## RIO-2 Re-opener Applications 2025 Final Determinations – GD Sector Annex

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This document sets out our Final Determinations (FDs) on a number of gas transporter licensees' re-opener applications that were submitted in September 2024 and January 2025. The applications were submitted under the following mechanisms: 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 published our [Draft Determinations](#) (DDs) in July 2025 and proposed to allow £126.529m of the £215.097m requested. After reviewing all consultation responses received, our FDs is to award £170.239m across these mechanisms.

We are also finalising our decision on Cadent's Diversions and Loss of Development Claims Re-opener from 2024. Our FDs is to award an additional £1.694m specifically for forecast Loss of Development Claims settling in years four and five of RIO-2. This brings Cadent's total Diversions and Loss of Development Claims Re-opener to £65.100m (£63.046m decided on in 2024 FDs and £1.694m decided on in 2025 FDs). We are, therefore, awarding a total of £235.340m across all of these listed mechanisms.

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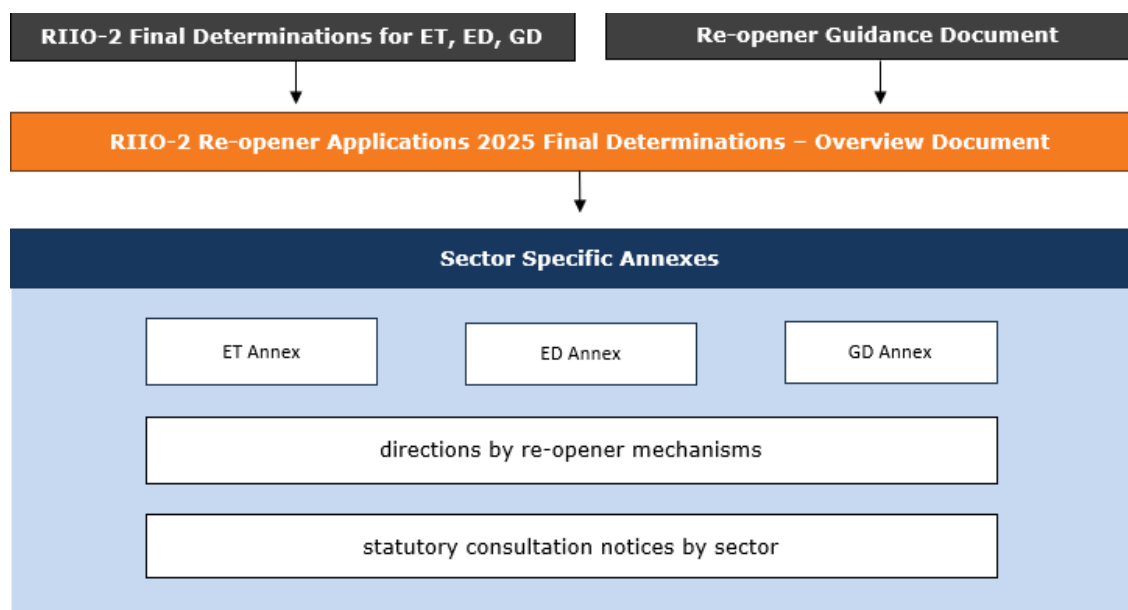
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## 1. Introduction

- 1.1 This document is one of three annexes published alongside the RIIO-2 Re-opener Applications 2025 FDs. It focuses on the re-opener mechanisms and the FD of projects submitted in the Gas Distribution (GD) sector. Please refer to the RIIO-2 Re-opener Applications 2025 FD – Overview Document for general information including decision making process, stages, etc.

**Figure 1: Navigating our FDs**



### What did we consult on?

- 1.2 The Gas Distribution Networks (GDNs) applied to Ofgem to add additional allowances into their RIIO-2 price control frameworks under the following mechanisms:  
Submitted September 2024
- HSE Policy Re-opener (Special Condition (SpC) 3.17); and
  - Specified Streetworks Costs Re-opener (SpC 3.24).
- Submitted January 2025
- NZASP Re-opener (SpC 3.9) – Cadent only.
- 1.3 Following their submissions, the licensees also provided additional information to us through a combination of bilateral meetings and Supplementary Question (SQ) responses.
- 1.4 We considered each proposal and the relevant justification for the funding requested in accordance with our principal objective and statutory duties. In line with the [Re-opener Guidance and Application Requirements Document](#), our assessment covered the following three areas for each project:
- The needs case;

- The options assessment and the justification for the proposed project; and
  - The efficient costs for the proposed project.
- 1.5 We combined this information to create our DDs on what additional allowances, if any, should be provided to each licensee to undertake the relevant projects.
- 1.6 We issued consultations on our DDs between 18 July 2025 and 26 August 2025, and each included a draft of the direction that would be used to implement the DD. We received five responses: four from the GDNs and one from National Grid Electricity Distribution (NGED).

## Purpose of this document

- 1.7 This document summarises the consultation responses received from stakeholders, and explains the changes made, if any, to our DD position since the consultation. It also sets out our FDs for applications submitted under the re-opener mechanisms listed in **Table GD1** below.

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

Re-opener 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

- 1.8 Alongside this decision, we are publishing a direction to amend Cadent, Scotia Gas Networks (SGN), Northern Gas Networks (NGN) and Wales and West Utilities (WWU's) licence for this decision.

- 1.9 We are also concluding our RIIO-2 Re-opener Applications 2024 FDs relating to Cadent's Diversions and Loss of Development Claims Re-opener. In our [Final Determinations on RIIO-2 re-opener applications 2024](#)<sup>1</sup>, we did not make a final decision regarding Cadent's forecast loss of development claims as we did not have cost certainty to do so. Cadent has since provided additional cost information and we are now in a position to finalise our decision. Further
- 1.10 information can be found in Chapter 6.

## Related publications

This document is intended to be read alongside:

- [Re-opener Guidance and Application Requirements Document](#),
- [Licences and licence conditions | Ofgem](#) – specifically SpC 3.17, SpC 3.24 and SpC 3.9,
- GDN applications (published on GDN's own websites):

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<sup>1</sup> GD Annex. Chapter 3, paragraphs 3.16-3.17 and 3.32-3.33.

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

- Cadent
  - [HSE Policy Re-opener Application](#)
  - [Specified Streetworks Costs Re-opener](#)
  - [NZASP Re-opener](#)
  - : [Diversions and Loss of Development Claims Re-opener \(2024\)](#)
- SGN
  - [HSE Policy Re-opener](#)
  - [Specified Streetworks Costs Re-opener](#)
- NGN
  - [HSE Policy Re-opener](#)
  - : ○ [Specified Streetworks Costs Re-opener](#)
- WWU
  - : ○ [HSE Policy Reopener](#)
  - [Specified Streetworks Costs Re-opener](#)
- [RIIO-3 Draft Determinations 2025: Electricity Transmission, Electricity Distribution and Gas Distribution](#),
- [RIIO-3 Final Determinations 2025: Electricity Transmission, Electricity Distribution and Gas Distribution](#).

## 2. Summary of our Final Determinations

2.1 **Table GD2** below summarises our FDs for the GD re-openers covered in this annex. Chapters 3-6 discuss these in greater detail.

**Table GD2: Summary of our GD Final Determinations\***

Sector Group	Network	Company Requested Forecast costs (£m)	Ofgem's DD - Allowances (£m)	Ofgem's adjustment from DD to FD (£m)	Ofgem's FD allowances (£m)
Cadent	EoE	21.803	15.817	+23.435	39.252
Cadent	Lon	21.410	9.336	+13.994	23.330
Cadent	NW	13.658	11.272	+24.079	35.351
Cadent	WM	8.853	8.061	+10.255	18.316
Northern Gas Networks	NGN	33.690	15.124	+7.900	23.024
Scotia Gas Networks	Sc	19.936	10.242	-0.0340	10.208
Scotia Gas Networks	So	45.684	30.099	+6.811	36.910
Wales & West Utilities	WWU	50.063	26.578	+22.371	48.948
<b>Total</b>		<b>215.097</b>	<b>126.529</b>	<b>+108.811</b>	<b>+235.340</b>

\*We have included Cadent's finalised Diversions and Loss of Development Claims Re-opener 2024 allowance of £65.100m (£63.406m decided on in 2024 FDs and £1.694m decided on in 2025 FDs).

### 3. HSE Policy Re-opener

#### Summary of our Draft and Final Determinations

3.1 **Table GD3** below summarises of our DDs and FDs.

**Table GD3: Summary of our HSE Policy Re-opener DDs and FDs (£m, 2018/19 prices)**

Sector Group	GDN submitted costs (RIIO-2 only)	Ofgem DD allowance	Ofgem adjustments DD to FD	Ofgem FD allowance
Cadent	29.594	28.106	+1.399	29.505
NGN	16.214	11.000	-0.040	10.960
SGN	50.660	30.448	+1.713	32.161
WWU	25.753	24.711	+0.027	24.738
<b>Total</b>	<b>122.221</b>	<b>94.264</b>	<b>+3.100</b>	<b>97.365</b>

#### Our Draft Determinations

- 3.2 We considered that all GDN re-opener applications were within scope of the mechanism as there have been updates to statutory requirements relating to fatigue management for shift workers enforced by the HSE within RIIO-GD2. The GDNs must comply with HSE expectations.
- 3.3 We proposed to award allowances proportionate to each GDN's emergency and repair staff numbers. We considered 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.
- 3.4 We considered this approach to be fair and an efficient way to award allowances, given the variations between network operating models, the level of fatigue management work completed to date, and to recognise the GDNs are all coming from different starting points.

#### Consultation responses

- 3.5 Cadent, SGN and NGN supported our needs case and optioneering assessment. However, they disagreed with our draft allowances. WWU disagreed with our assessment. However, it added that it agreed that awarded allowances should be proportionate to emergency and repair staff but that this should also be modelled on compliance.
- 3.6 Cadent, SGN and WWU agreed in principle with our proposals to award allowances proportionate to emergency and repair staff numbers. However, WWU suggested that allowances should be benchmarked against the most efficient of the companies that expects to achieve full compliance by the end of RIIO-GD2. In WWU's view, on principle, GDNs should not be awarded funding in this area relative to the benchmark if not compliant.



- 3.7 NGN disagreed with our approach, stating that it is simplistic and rewards historical poor performance and inefficiency. NGN states that our approach conflates baseline costs and baseline FTEs with increment requested from each GDN to achieve compliance and that Ofgem should only assess additional requests for funding. NGN also argued that Ofgem’s approach rewards higher FTE networks and takes no account of whether these networks are the correct size and resilient in the first place.
- 3.8 NGN argued that sparsity should be accounted for within the benchmarking as NGN’s network is sparser and therefore faces relatively higher costs and resource requirements to ensure sufficient coverage and to comply with emergency call out standards. NGN also queried the source of the FTE data used as NGN did not recognise these from Regulatory Reporting Packs (RRPs) or Business Plan Data Templates (BPDTs). NGN also states that networks belonging to groups benefit from cost sharing (Cadent and SGN), and that these submissions should be taken as a whole rather than on an individual network basis.
- 3.9 Although Cadent agreed with our calculation methodology, it did not agree with its application and identified some errors. These are:
- Cadent’s expected compliance dates: Cadent highlights that in Ofgem’s RIIO-3 DDs, we incorrectly stated that Cadent is expected to reach full compliance in 2028. Cadent confirms that it expects to be fully compliant from 2025/26 when all contract labour is in place. Numbers used in our re-opener DDs were taken from an SQ response from Cadent, which used a different measurement of incremental costs<sup>2</sup>. Cadent does not expect any incremental costs in RIIO-3, as similar to WWU, it will achieve compliance in RIIO-2. RIIO-3 costs should therefore be zero as per WWU,
  - The price base conversion used is inconsistent with RIIO-3 DDs,
  - RIIO-GD2 re-opener values do not match those shown in the RIIO-GD3 normalisation files.
- 3.10 SGN suggested some further refinements to our calculation methodology, which are to:
- use the FTE position at the start of RIIO-3 (2026/27) instead of the average over RIIO-2, reflecting the point at which organisational changes are expected to be complete and mitigates any variations to resource increases at a given time,
  - include all FTEs which perform emergency and repair activities, not just emergency and repair staff. SGN recommends a 30% proportion of its maintenance FTEs be included in our benchmarking,
  - apply regional factor adjustments,

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<sup>2</sup> The incremental costs of fatigue, in RIIO-2 and RIIO-3, for implementing change not already in place prior to the RIIO-2 plan submission.

- account for the relative number of FTEs of each GDN, as the current model doesn't reflect cost distribution across the whole network i.e. smaller networks impact the benchmark despite a small proportion of workforce undertaking emergency and repair activities, and
- benchmark to the 50<sup>th</sup> percentile, instead of the 75<sup>th</sup> percentile. SGN references the use of industry unit rates for setting cost allowances for activity-level categories in RIIO-ED1 and RIIO-ED2 where the 50<sup>th</sup> percentile was used. SGN also included an example from Ofwat where the CMA recognised the benefit in using the 50<sup>th</sup> percentile where there are modelling or data restrictions. SGN added the HSE Policy Re-opener only covers a subset of emergency and repair activities, making the data imperfect.

## **Our Final Determinations**

- 3.11 Our Final Determination is to implement our Draft Determinations methodology and award an allowance proportionate to emergency and repair staff FTE. We consider this to be a fair and efficient way to award costs which have been imposed as a direct result of complying with HSE expectations, as this should be roughly proportionate to the number of staff directly affected by the requirements. We consider that this accounts for the fact that the GDNs are operating different business models and are at different starting points in terms of ensuring HSE compliance.
- 3.12 We have decided to make some refinements to our methodology based on consultation responses. These are:
- Regional factors – we have aligned with RIIO-3 methodologies to account for the impacts of regional labour, urbanity and sparsity by applying RIIO-2 regional factors to our allowance calculations,
  - Model error corrections – we have updated the price base conversion factor so that the same 2018/19 conversion is used in both RIIO-2 and RIIO-3 models. We have also updated the GD2 re-opener values in the GD3 normalisation file.
- 3.13 We have decided not to implement the following suggestions included in consultation responses:
- Compliance adjustment – The licence accommodates for providing funding for this specific area of emergency and repair costs relating to fatigue management. The GDNs have all demonstrated efficient costs which are in scope of the licence. We recognise that they all must comply with HSE expectations, at an increased cost. Our approach is to ensure that licensees are sufficiently funded to enable them to be compliant within reasonable timeframes, not dictating compliance by a specific date. We consider that our approach takes into account that the GDNs are all coming from different starting points and are working towards the same end point which is compliance with HSE fatigue requirements. Additionally, we have maintained Cadent's GD3 costs within our benchmarking model as per our DDs, as

- amending these does not take into account differing starting points between the GDNs,
- Refinements to FTE numbers – we do not consider that including all FTEs who perform emergency/repair activities (for example, maintenance staff) would improve the methodology calculations as we would be uplifting staff numbers by an arbitrary percentage, which would likely apply a similar proportion across all the GDNs. With regards to refinements to account for relative FTE across networks, we consider that the application of regional factors sufficiently accounts for this,
  - Change efficiency benchmarking from 75<sup>th</sup> to 50<sup>th</sup> percentile – we have decided to maintain the 75<sup>th</sup> percentile in line with RIIO-3 methodologies. We do not consider that enough evidence has been presented to deviate from RIIO-3 alignment, given fatigue management spans both RIIO-2 and RIIO-3 price controls.
- 3.14 With regards to concern that our methodology awards networks with higher FTEs, we consider this to be appropriate as the level of fatigue management requirement will likely be proportionate to the number of staff it affects. Specifically on cost sharing, we also consider that differences in costs between GDNs will primarily be fixed costs which we are not funding through this mechanism as these are funded elsewhere in the price control, for example, business support costs. We therefore consider that a top-down allowance is fair in this regard. Furthermore, given that fatigue management spans both RIIO-2 and RIIO-3 price controls, we consider it appropriate to look at the total cost picture and use this to provide a top-down allowance which we consider will be sufficient to comply with HSE expectations.
- 3.15 To address NGN’s specific point on the source of our FTE data, NGN’s staff numbers are taken from the BPDT tab M8.11 FTE (own employee + apprentices/trainees + contract labour) and it reflects both the GDN’s own employees and contract staff.
- 3.16 We do not consider it necessary to hold additional industry working groups on this subject. We are satisfied that GDNs and other stakeholders have had sufficient opportunity to express their views through the consultation and bilateral engagements, and that our decision appropriately considers these views. Convening additional working groups would simply delay the decision without any guarantee that it would result in a fairer or better outcome for consumers.

## 4. Specified Streetworks Costs Re-opener

### Summary of our Draft and Final Determinations

4.1 Table GD4 below summarises our DDs and FDs.

**Table GD4: Summary of our Specified Streetworks Costs Re-opener DDs and FDs (£m, 2018/19 prices)**

Sector Group	GDN submitted costs (RIIO-2 only)	Ofgem DD allowance	Ofgem adjustments DD to FD	Ofgem FD allowance
Cadent	15.650	0.000	+5.264	5.264
NGN	17.476	4.124	+7.940	12.064
SGN	14.957*	9.893	+5.064	14.957
WWU	24.310	1.867	+22.343	24.210
<b>Total</b>	<b>72.396</b>	<b>15.884</b>	<b>+40.611</b>	<b>56.495</b>

\*We note that the total in our DDs TableGD4 was £14.960m in error, but correctly stated as £14.957m in DDs TableGD4c.

### Our Draft Determinations

4.2 We proposed to award allowances only where they are related to new permit and lane rental schemes introduced in RIIO-GD2. As per SpC 3.24, we proposed to disallow costs which relate to schemes implemented before 1 April 2021.

### Consultation responses

4.3 We received four responses from the GDNs and one response from NGED. All disagreed with our proposals.

4.4 The GDNs argued that at RIIO-2 Business Plan (BP) submission, Ofgem guidance was to not include uncertain streetworks costs and that these would be picked up in the RIIO-GD2 re-opener. The GDNs stated that they have observed an increased number of conditions on existing schemes being implemented. NGED made similar points, stating that our position does not recognise the need for networks to comply with existing and expanding regulatory obligations and requirements, and that the approach adopted for RIIO-GD2 FDs has not properly accounted for this. There was general agreement from respondents that there are new requirements on new or existing streetworks schemes and these should be considered to be within scope of the licence.

4.5 Respondents also gave their reflections on the effectiveness of this mechanism, and views on broadening the RIIO-GD3 re-opener to explicitly include costs which are related to increased requirements on existing schemes. Specifically, SGN made the following suggestions for the RIIO-GD3 re-opener:

- Include provisions for new hazardous waste requirements, which are expected to be imposed on the GDNs from October 2025,

- Remove the Materiality Threshold as having a threshold automatically leaves the GDNs with unavoidable and unrecoverable expenditure,
  - Include RIIO-GD2 costs relating to three lane rental schemes which have, or will, come into force in RIIO-GD2. SGN noted that these costs will be out of scope of the current GD3 re-opener proposals and only became known after the RIIO-GD2 re-opener submission and RIIO-GD3 BPs.
- 4.6 Respondents also provided some general comments around the re-opener application and consultation process. We note the comments and will give them appropriate consideration in future re-openers.

## Our Final Determinations

- 4.7 We agree with respondents that suggested that any new requirements, regardless of whether they apply to new or existing streetworks schemes, should be considered in scope of the re-opener mechanism. Upon further review, this interpretation is as was intended at the time the mechanism was designed and in accordance with the licence, which states that the application must “relate to permit schemes, lane rental schemes or requirements”<sup>3</sup> on or after 1 April 2021. There is no restriction in the licence on what schemes the “requirements” can relate to. We have updated our assessment accordingly.
- 4.8 To clarify, for the avoidance of doubt, that in order to be considered in scope, the costs must be:
- incurred or expected to be incurred in RIIO-GD2,
  - as a result of requirements imposed on the licensee by a public body on or after 1 April 2021,
  - within the definition of Specified Streetworks Costs.
- This means that all costs incurred in RIIO-GD1, and all costs incurred in RIIO-GD2 but incurred as a result of requirements imposed before the start of RIIO-GD2 are out of scope.
- 4.9 Further detail on our FDs and allowances can be found in the individual company sections below.

## RIIO-3

- 4.10 Respondents have included comments relating to the RIIO-3 Streetworks Re-opener scope, eligibility dates and Materiality Threshold. Further details on our considerations and decisions can be found in our [RIIO-3 Final Determinations](#).<sup>4</sup>

## Cadent

- 4.11 **Table GD4a** below summarises our DDs and FDs.

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<sup>3</sup> SpC 3.24, paragraph 3.24.4

<sup>4</sup> GD Annex, Chapter 4.

**Table GD4a: Summary of our DDs and FDs for Cadent’s Specified Streetworks Costs Re-opener (£m, 2018/19 prices)**

	Cadent submitted costs	Ofgem DD allowance	Ofgem adjustments DD to FD	Ofgem FD allowance
PBS	13.670	0.000	+3.284	3.284
Traffic light management	1.980	0.000	+1.980	1.980
<b>Total</b>	<b>15.650</b>	<b>0.000</b>	<b>+5.264</b>	<b>5.264</b>

4.12 We proposed to disallow all costs under Cadent’s re-opener application as all schemes were in place before April 2021 and, therefore, our view was that these costs were out of scope.

4.13 Cadent provided additional information post-consultation confirming whether costs related to new requirements, relating to either new or existing streetworks schemes, being imposed over RIIO-GD2. We consider that Cadent has demonstrated that there are new requirements relating to:

- Parking Bay Suspensions (PBS) – increases in areas that controlled parking zones are implemented,
- Traffic light management – increase in person operated traffic lights.

We have decided to award £5.264m for these new requirements.

4.14 Cadent also indicated that £10.386m of PBS costs related to an increase in the cost per parking bay. We do not consider that a cost increase qualifies as a new requirement as per SpC 3.24. Since we have not had evidence of new requirements, we are, therefore, disallowing £10.386m of Cadent’s £15.650m total cost request.

## NGN

4.15 **Table GD4b** below summarises our DDs and FDs.

**Table GD4b: Summary of our DDs and FDs for NGN’s Specified Streetworks Costs Re-opener (£m, 2018/19 prices)**

	NGN submitted costs	Ofgem DD allowance	Ofgem adjustments DD to FD	Ofgem FD allowance
Permits	5.898	0.489	0.000	0.489
Traffic management	11.578	3.635	+7.940	11.575
<b>Total</b>	<b>17.476</b>	<b>4.124</b>	<b>+7.940</b>	<b>12.064</b>

4.16 We proposed to partially disallow NGN’s cost request as only two local authorities had implemented schemes after April 2021, and disallowed costs for the remaining thirteen schemes.

- 4.17 NGN provided additional information post-consultation confirming whether costs related to new requirements, relating either to new or existing streetworks schemes, are being imposed over RIIO-GD2. We consider that NGN has demonstrated that there are new requirements relating to traffic management, which has seen an increase in requirements such as person operated traffic lights, additional signage and road closures. We have therefore decided to award an additional £7.940m which brings the total allowance for traffic management to £11.575m.
- 4.18 We have maintained our DD position to disallow £5.409m relating to permit schemes in place before April 2021. NGN has not provided evidence that these costs relate to new requirements in place after April 2021 as per SpC 3.24. We therefore consider these costs to not be in scope of the licence, and our FD position is to disallow these costs.

## SGN

- 4.19 **Table GD4c** below summarises our DDs and FDs.

**Table GD4c: Summary of our DDs and FDs for SGN's Specified Streetworks Costs Re-opener (£m, 2018/19 prices)**

	SGN submitted costs	Ofgem DD allowance	Ofgem adjustments DD to FD	Ofgem FD allowance
Lane rental	11.430	9.010	+2.420	11.430
ULEZ	0.883	0.883	0.000	0.883
Traffic management	2.644	0.000	+2.644	2.644
<b>Total</b>	<b>14.957</b>	<b>9.893</b>	<b>+5.067</b>	<b>14.957</b>

- 4.20 We proposed to partially disallow SGN's costs relating to one local authority which implemented schemes in the 2019/20 financial year. We proposed to award SGN's ULEZ charge request but urged SGN to completely avoid these charges in future through procurement of ULEZ-compliant vehicles.
- 4.21 SGN provided additional information post-consultation confirming whether costs related to new requirements, relating either to new or existing streetworks schemes, are being imposed over RIIO-GD2. We consider that SGN has demonstrated that there are new requirements relating to traffic management, specifically the manual operation of portable traffic signals. We have therefore decided to award an additional £2.644m under this activity.
- 4.22 SGN also highlighted an error in our DD allowances, relating to one local authority scheme in which we disallowed £2.420m. SGN has confirmed that it had already removed these costs within its re-opener application, meaning our disallowance has double counted this deduction in error. We have amended this as per **Table GD4c** above.
- 4.23 We have, therefore, decided to award SGN's original cost request in full.

- 4.24 We acknowledge that we have allowed ULEZ costs in this decision but have excluded it in our RIIO-3 settlement decision.<sup>5</sup> We consider allowing these costs in RIIO-GD2 to be appropriate given the relative recency of the introduction of ULEZ schemes and expansion of zones within RIIO-GD2. However, we consider that the timing of RIIO-GD3 is such that the GDNs should have had time to adapt to these requirements. We have concerns that accepting these claims in RIIO-GD3 could disincentivise the decarbonisation of GDNs’ fleets.

## WWU

- 4.25 **Table GD4d** below summarises our DDs and FDs.

**Table GD4d: Summary of our DDs and FDs for WWU’s Specified Streetworks Costs Re-opener (£m, 2018/19 prices)**

	WWU submitted costs	Ofgem DD allowance	Ofgem adjustments DD to FD	Ofgem FD allowance
Permits	6.850	0.876	+5.974	6.850
Traffic management	14.360	0.867	+13.493	14.360
Road closure costs	3.100	0.124	+2.876	3.000
<b>Total</b>	<b>24.310</b>	<b>1.867</b>	<b>+22.343</b>	<b>24.210</b>

- 4.26 We proposed to partially disallow WWU’s costs as only three local authorities implemented schemes after April 2021, and, therefore, disallowed costs relating to the remaining eleven schemes.
- 4.27 WWU provided additional information post-consultation confirming whether costs related to new requirements, relating either to new or existing streetworks schemes, are being imposed over RIIO-GD2. We consider that WWU has demonstrated that there are new requirements across its application.
- 4.28 We have disallowed £0.100m of costs under WWU’s “road closure costs” category. WWU confirmed that £0.100m of included costs is related to a price increase to base fees. We do not consider that a cost increase qualifies as a new requirement as per SpC 3.24 so we have, therefore, disallowed these costs.

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



## 5. NZASP Re-opener (Cadent only)

### Summary of our Draft and Final Determinations

5.1 Table GD5 below summarises our DDs and FDs

**Table GD5: Summary of our NZASP Re-opener DDs and FDs (£m, 2018/19 prices)**

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

### Cadent

5.2 Table GD5a below summarises DDs and FDs.

**Table GD5a: Summary of our DDs and FDs for Cadent's NZASP Re-opener (£m, 2018/19 prices)**

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

### Our Draft Determinations

- 5.3 Cadent sought to bring forward allowances from its RIIO-GD3 plan for vehicle-based Advanced Leakage Detection (ALD) which measures emissions from its Low Pressure (LP) and Medium Pressure (MP) networks. Cadent claimed bringing this project forward one year, to the last year of RIIO-GD2, would bring benefits and would positively impact the UK's ability to meet Net Zero Carbon Targets.
- 5.4 We agreed with Cadent's needs case and optioneering and agreed there are potential benefits in bringing forward this project from RIIO-3. We proposed no adjustments to Cadent's submitted project costs. We proposed a 10% company contribution and a Totex Incentive Mechanism (TIM) impact adjustment to protect this contribution in line with other recent NZASP decisions.

## **Consultation responses**

5.5 We received responses from Cadent and NGN.

### Cadent's response

- 5.6 Cadent agreed with our needs case and optioneering assessment but disagreed with our cost assessment. Cadent disagreed with our proposal for it to make a 10% contribution towards the cost and for our proposed TIM impact adjustment, stating that, when combined with its totex overspend from the previous pilot stage, it equates to a contribution of 17% of the total project cost. Cadent has suggested increasing its 9% proposed contribution, which is £2.13m of overspent Totex allowance from a previous stage of the project, to 10% with a further £0.344m to be deducted.
- 5.7 Furthermore, Cadent added that it cannot agree to paragraph 5.15 of our [consultation](#), where we stated that “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”. In Cadent’s view this indicates that it will have to comply with potential future project deliverables without agreeing or knowing what these could be.

### NGN's response

- 5.8 NGN did not agree with our determinations and do not see the value in bringing the investment forward by one year. NGN added that consumers should pay a portion of the costs only where there are additional costs associated with wider consumer benefits. NGN considers that the link between early funding and methane emission reductions has not been clearly established and asks for clarification on our rationale. NGN also states that Cadent is in receipt of significant funding from the Strategic Innovation Fund (SIF) for its Digital Platform for Leakage Analytics (DPLA) project<sup>6</sup>, and that it would be prudent to conclude and assess findings before providing additional funding.
- 5.9 NGN consider that a better way to reduce methane emissions would be for industry to invest and close down existing baseline levels of escapes within 7 and 28 days before investing in technologies which will detect new and currently unreported leaks. Further NZASP investment would lead to more leaks detected but not necessarily a quicker resolution of them.

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<sup>6</sup> Under the SIF-funded DPLA project, fixed sensor technology for above ground gas sites and an alternative vehicle-based ALD provider are being trialled in RIIO-GD2 so that the platform can be designed appropriately to have the capability to ingest data from multiple sources. Cadent confirmed in its re-opener application that DPLA funding is not being used in RIIO-GD2 to fund a widespread scale up of vehicle-based ALD or subsidise the Cadent self-funded Totex vehicle-based ALD pilot in its London network.

## Our Final Determinations

- 5.10 Our decision is to maintain our DDs position and award our DD proposed allowances under the NZASP re-opener.

### Company contribution

- 5.11 We have decided to maintain our proposed 10% company contribution.
- 5.12 We acknowledge Cadent’s proposal to increase its previous 9% overspend to a 10% overspend with additional contribution of £0.344m. However, these are two distinct regulatory mechanisms which are not related. The NZASP guidance highlights that the default level of expected contribution is 10% and, while the NZASP governance allows for flexibility in the form of contributions, it does not explicitly permit retrospective spend. We do not consider it appropriate that consumers should pay all of the project costs and take on all of the risk.
- 5.13 Over RIIO-2, we have set a clear precedent<sup>7,8</sup> that funding provided to gas networks through the NZASP re-opener must include a 10% company contribution. The NZASP guidance clearly sets out that, where a project is substantially innovative, we expect a 10% contribution. This project demonstrates a low carbon, new and innovative way to monitor methane emissions. Cadent has not made a compelling case for departing from the precedent and treating this project any differently.

### TIM impact adjustment

- 5.14 We have decided to maintain our proposed TIM impact adjustment to protect the 10% company contribution, using the following formula:
- $$[Allowance] = [Assessed\ Efficient\ Costs] - [Company\ Contribution]/[TIS]$$
- Where:
- TIS means the Totex Incentive Strength.
- 5.15 We expect Cadent to spend at an efficient level. Without a TIM impact adjustment, the TIM would return a share of Cadent’s Totex funding which would reduce the NZASP requirement of a 10% company contribution. We do not agree with Cadent’s argument that it will be providing a 17% contribution towards the total costs of the project as the project spend is split over two distinct regulatory mechanisms and are not related. This is a position we took in other recent NZASP decisions and do not consider enough evidence has been presented to deviate from this position.

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<sup>7</sup> [Final Determinations: East Coast and Hyline Cymru Hydrogen Network FEED re-opener applications | Ofgem](#), [NGT Project Union Feasibility Phase - Decision | Ofgem](#), [SGN LTS Futures Project - Decision | Ofgem](#).

<sup>8</sup> [North West and St Fergus to Teesside hydrogen Front End Engineering Design \(FEED\) reopener funding applications | Ofgem](#)

- 5.16 Applying Ofgem’s assessed efficient costs (£20.480m) and Cadent’s contribution (£2.050m) values as per **Table GD5a** above, in addition to Cadent’s Totex Incentive Strength of 50%<sup>9</sup>, gives the following allowance:

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

- 5.17 We therefore have decided to award £16.380m for Cadent’s project.

#### Treatment of regulatory funding

- 5.18 Given no evidence was presented to dispute our DDs position, our decision is to fund via the NZPt term and socialise costs among Cadent’s own network and consumers.

#### Project deliverables

- 5.19 **Table GD5b** below sets out our finalised project deliverables that Cadent must meet as a condition of awarded funding. Given no evidence was presented to dispute the proposed deliverables within our DDs, the final deliverables are unchanged.
- 5.20 To address Cadent’s specific concern around unknown future deliverables, these project deliverables are finalised and no additional deliverables will be added in future. We acknowledge that timelines can shift, however, Cadent must notify Ofgem in writing should this happen as per paragraph 7 of Cadent’s direction, which has been published alongside this decision.
- 5.21 We have removed the requirement to submit an interim report (Project Deliverable 1 in our DDs) as we do not consider that an interim report submitted two months before the final report will bring additional value. The remaining two deliverables will have a deadline date of 31 March 2026.

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<sup>9</sup> As per Cadent’s licence.

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

Reference	Project deliverable	Deadline	Evidence
1	Final vehicle-based ALD roll out report	31/03/26	<p>The report should set out:</p> <p>1. Vehicle-based ALD capacity vs re-opener targets:</p> <ul style="list-style-type: none"> <li>a) Number of units purchased,</li> <li>b) Number of units mobilised,</li> <li>c) Length of network surveyed,</li> <li>d) Follow on interventions commissioned.</li> </ul> <p>2. Progress update on emissions estimation method capability.</p>
2	Mobilisation of full LP/MP network coverage capacity	31/03/26	Evidence showing survey capacity.

NGN’s response

- 5.22 We consider that ALD rollout is important in meeting HSE requirements on condition monitoring through its Iron Mains Risk Reduction Programme (IMRRP).<sup>10</sup> HSE outlines that the GDNs should establish suitable regimes for monitoring all iron pipes at any distance, and should utilise recent technological developments in leakage detection to enhance sensitivity, extent and, where appropriate, the frequency of leakage surveys.
- 5.23 In RIIO-3 FDs, we have funded the rollout of ALD through baseline allowances for all GDNs.<sup>11</sup> Specifically for Cadent, we have deducted its RIIO-GD2 re-opener funding from its RIIO-GD3 allowance to ensure there is no potential overlap in costs. We consider accepting that Cadent’s RIIO-GD2 NZASP funding request will allow Cadent to promptly roll out this technology, prevent delays and consequently enables the benefits to be established sooner. Principally, there are benefits associated with ALD and the corrective action of leaks. Cadent has stated in its application that rolling out this technology ahead of RIIO-3 will deliver an extra £25.7m benefit by 2040 when compared to starting in RIIO-3. Cadent also adds it will deliver wider additional benefits, such as proactive repair processes which will also benefit consumers.

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<sup>10</sup> [Enforcement Policy for the iron mains risk reduction programme 2026-2032 - HSE](#)

<sup>11</sup> [RIIO-3 Final Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#) – GD Annex, Chapter 5

## 6. Diversions and Loss of Development Claims Re-opener 2024 (Cadent only)

### Our Final Determinations – forecast loss of development claims only

- 6.1 In January 2024, Cadent made an application under the Diversions and Loss of Development Claims Re-opener. We consulted on our [DDs](#) in September 2024 and published our [FDs](#) in December 2024. We awarded Cadent £63.046m under this re-opener but did not make a decision on Cadent’s forecast loss of development claims as we did not have cost certainty to do so. We also did not issue a formal direction at the time.
- 6.2 In November 2025, Cadent provided additional claim information relating to three forecast loss of development claims which are likely to settle in year five of RIIO-2. Two of these claims are lower than forecast in Cadent’s original re-opener application.
- 6.3 We awarded an allowance for one Cadent claim in our 2024 FDs. Cadent has included the second part of this claim (£1.047m) stating that this was not included in its original application as it was not expected that this would materialise.
- 6.4 We are satisfied that these additional claims satisfy the requirements set out in our 2024 FDs, in that these are claims likely to settle in year five of RIIO-2. However, we acknowledge that these claim values may reduce once negotiations between Cadent and third-parties have concluded. We have, therefore, decided to award additional allowances with an associated Price Control Deliverable (PCD). This will mitigate the risk of final claims being different to our awarded allowances and enable us to return any underspend to consumers.
- 6.5 We consider these costs to be efficient and within scope of the licence. We now have the required evidence to finalise our FDs under Cadent’s re-opener and issue the associated direction. We also acknowledge that these claims are less than originally forecast, which is in consumer interest.
- 6.6 Our final decision is to award Cadent £65.100m (£63.406m decided on in 2024 FDs and £1.694m decided on in 2025 FDs). Our Loss of Development Claims allowances are confirmed in **Table GD6a** below. We have also published a final direction alongside this decision.

**Table GD6a: Summary of our FDs for Cadent’s Diversions and Loss of Development Claims Re-opener 2024 (£m, 18/19 prices)**

<b>Category</b>	<b>Cadent submitted</b>	<b>Ofgem 2024 FD allowance</b>	<b>Cadent updated submission</b>	<b>Ofgem adjustments</b>	<b>Ofgem 2025 FD allowance</b>
<u>Determined in 2024 FD</u>					
Diversions	73.530	53.390	N/A	N/A	53.390
Environmental	9.660	8.110	N/A	N/A	8.110
Loss of development claims	1.920	1.920	N/A	N/A	1.920
2024 FD Rounding Error	-0.001	-0.014	N/A	N/A	-0.014
Sub-total	85.109	63.406	0.000	0.000	63.406
<u>Determined in 2025 FD</u>					
Loss of development claims	6.380	0.000	1.694	0.000	1.694
<b>Total</b>	<b>91.489</b>	<b>63.406</b>	<b>1.694</b>	<b>0.000</b>	<b>65.100</b>