



Making a positive difference  
for energy consumers

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Date: 15 December 2025

Dear Stuart,

### **Proposed Modifications to Cadent's Connection Charging Methodology**

You submitted a revised copy of your Connection Charging Methodology ("the CCM") and two Charging Conclusions Reports ("reports") to us<sup>1</sup> on 17 September 2025. In your reports, you propose two modifications to the Cadent CCM, these are:

- (a) introducing a High Cost Cap (the "HCC") to permit socialisation of reinforcement costs for new connections up to the cap level, and requiring connecting parties with excessive or uneconomic costs to pay any increment above that cap; and
- (b) updating provisions relating to financial security requirements for new projects seeking distribution-level entry connections, to mitigate stranded asset risk and avoid unnecessary costs accruing to consumers.

Standard Condition ("SC") 4B of your Gas Transporter Licence states that we can give a direction in respect of any proposed connection charging methodology modification, that the modification shall not be made. Having regard to the modifications proposed, we have decided not to veto the modification. Our decision, including our reasons are detailed below.

### **Background**

SC 4B of your Gas Transporter Licence sets out obligations for you to put in place and maintain a connection charging methodology. In particular SC 4B(4) provides that you must review the CCM at least once every year, and make any such modifications as necessary for the purpose of better achieving the relevant connection charging objectives.<sup>2</sup>

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<sup>1</sup> Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority', 'we', 'our' and 'us' are used interchangeably in this document.

<sup>2</sup> Standard Condition 4B, paragraph 4 [Gas Transporter Standard Licence Conditions](#)

It also states that any modifications must be submitted to us alongside a report which sets out the modifications, explains why they will better facilitate the relevant objectives<sup>3</sup>, and includes a timetable for implementing the changes. We have a 28-day period starting from the date this information is submitted to us to issue a direction to the licensee that the modifications shall not be made.<sup>4</sup> SC 4B (6) allows this period to be extended to three months where we identify the need to undertake an impact assessment.

The modifications you propose are described in more detail below.

#### Modification (a): Introduction of a High Cost Cap (HCC) arrangement for new projects requiring Entry Reinforcement

You propose to revise sections 3.11 and 4.2 of your CCM to introduce the HCC mechanism to apply to eligible new projects requiring entry reinforcement from 1 April 2026, to coincide with the commencement of the RIIO-GD3 Price Control. You have stated that the proposed revisions would change the existing “deep” charging boundary by permitting Cadent to socialise a proportion of reinforcement costs across the wider customer base.

In the relevant report, you set out the methodology for calculating the High Cost Cap, including adjustments for Consumer Price Index with Housing Costs (CPIH) and the use of updated reinforcement cost data. You explain how the cap will apply to distribution connection offers and reconciliation processes, how reinforcement costs above the cap will be charged to connecting parties, and also explain how the cap will interact with existing or planned reinforcements.

Your proposed modifications set out the operation of application assessment windows, including how validated applications will be processed, how revised windows will be communicated, and how connection-point assessments will be undertaken by Cadent. You also provide further detail on how Entry and Storage Reinforcements will be treated under the new connection charging arrangements, including the use of indicative reinforcement cost calculations and how reinforcement costs will be allocated when multiple entry projects benefit from a single reinforcement.

#### Modification (b): Updating financial security requirements for Entry connections

You propose to revise sections 4.2.9 – 4.2.12 of your CCM which relate to financial security for Entry Reinforcement. You explain the forms of acceptable financial security (including letters of credit, parent company guarantees and cash deposits), the circumstances in which security must be provided to Cadent, and the conditions under which the security will be

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<sup>3</sup> The relevant objectives are set out in SC 4B, paragraph 5.

<sup>4</sup> SC 4B, paragraph 6 [Gas Transporter Standard Licence Conditions](#)

reduced or released following commissioning and demonstration of sustained outputs. You also clarify the treatment of stranded asset costs in the event a project does not proceed.

### **Impact Assessment and Extension of the Statutory Decision Period**

SC 4B permits us to extend the deadline by which we must make a decision in respect of the CCM modifications from 28-days to 3 months in circumstances where we conclude that an Impact Assessment (IA) should be undertaken.

Having reviewed the reports submitted on 17 September 2025, we decided that we should conduct an IA in respect of both modification (a) and (b). We communicated the same to you in our email of 25 September 2025, confirming our intention to render a decision on the underlying proposals by 17 December 2025 (3 months from receipt of modifications).

An IA was deemed appropriate in this case because our decision pertains to a function exercisable by us under or by virtue of Part 1 of the Gas Act 1986, and because the modifications to your CCM interact with a wider set of issues:

- the proposals introduce new mechanisms — including the HCC and changes to financial security arrangements — which may have distributional, financial and market impacts. These mechanisms have not previously been applied by Gas Distribution Networks (GDNs) and therefore require careful regulatory scrutiny.
- the proposals may have wider consumer and distributional impacts, making a proportionate assessment of fairness, cost reflectivity and long-term consumer outcomes appropriate.
- a decision on this submission is likely to influence how the proposals of other GDNs are developed and assessed, and it is therefore important that the Authority fully considers the implications for consistency, incentives and long-term outcomes.
- the proposal interacts with new RIIO-3 Gas Distribution (GD) funding arrangements, with elements of reinforcement costs funded via RIIO-3 GD allowances rather than solely through connection-charging rules, raising broader issues of cost allocation, incentives and alignment with Standard Condition 4B.
- elements of the proposals may interact with wider Government policy, including on biomethane, decarbonisation and future flexibility markets, requiring a proportionate assessment of potential long-term effects.

### **Our Comments**

#### IA for Modification (a) High Cost Cap for Entry Connections

Our IA for the High Cost Cap (**Annex A**), includes quantified and monetised impacts of:

- Carbon emissions reductions from biomethane replacing demand for natural gas.
- An increase in carbon emissions due to the need for roughly 10% of biomethane requiring propanation to be injected into the gas grid.
- Air quality impacts/damage costs due to increased ammonia emissions, released as a by-product of biomethane production.
- Reduced air quality impacts and damage costs due to the counterfactual use of feedstock used for biomethane production.
- Fertiliser cost savings: Decreased synthetic fertiliser usage due to increased digestate production.

The impact assessment models three scenarios reflecting differing numbers of biomethane plants requiring reinforcement under the scheme: low (21), central (30) and high (48). The number of plants in the central scenario reflects the maximum £20m per network allowed to be socialised over the RIIO-3 period. All scenarios were considered across a policy appraisal time of 20 years. The full details can be found in the IA document.

Our assessment found:

- Monetised benefits (primarily emissions-linked) exceeded costs in all scenarios, with a strong Benefits Cost Ratio. This was also true where sensitivity to low/high carbon pricing was considered.
- The direct impact on consumer bills ranged from £4.87 to £11.23 for the 5-year RIIO 3 period.
- The proposal resulted in a less concentrated, more competitive market in all scenarios.

Although we acknowledge some uncertainty regarding assumptions that have informed this analysis, we are confident that, even with our least optimistic assumptions, the implementation of the HCC will likely yield positive overall consumer and net zero benefits compared to the existing baseline.

#### Further comments regarding Modification (a) High Cost Cap for Entry Connections

The supplied report associated with modification (a) asserts that the modification has the potential to support the development of new biomethane and low-carbon gas connections, particularly where high reinforcement costs may currently act as a deterrent.

By reducing the upfront cost burden on new distributed biomethane gas entry connections, the HCC proposal claims to remove a barrier to market entry. Analysis from the IA indicates that the implementation of the HCC may result in a market that is less concentrated and more competitive than the current baseline by allowing new entrants into the gas (production and) supply marketplace who may have previously been deterred by high connection costs acting

as a significant financial barrier to entry. We separately note that your report also provides further detail on the steps required to confirm connection-point suitability, including the use of system studies to assess available capacity, reinforcement need and interactions with ongoing or planned network works. We consider that these clarifications improve certainty and predictability for connecting parties, thereby further removing administrative barriers to entry for new producers. We therefore agree that the proposal will likely facilitate increased competition in the production and supply of biomethane, and that the proposal better facilitates objective (b).

The report expresses confidence that setting the HCC will retain a significant level of cost reflectivity and provide location signals that will drive developers' siting decisions. We note the explanation provided on how the HCC will be derived, updated and applied, including your intention to review the cap periodically as validated reinforcement cost data becomes available. We also note the arrangements for applying the cap across multiple users, and for reconciling indicative and final project costs. We agree that that, assuming the cap level (£1,952 per scm/h of maximum hourly entry flow) has been calibrated correctly, approximate cost reflectivity can be achieved. The modification thereby ensures Cadent's CCM results in charges which are transparent, and reasonably reflect the cost that will be incurred by Cadent, and better facilitates objective (c).

The proposed modification reflects increasing industry interest in biomethane, changes in Government policy and will better enable new projects requiring distribution-connected entry. The proposal puts in place an appropriate charging mechanism reflecting the availability of new funding for eligible projects provided for under the RIIO-3 GD Final Determination (FD); it therefore properly takes account of developments in the licensee's transportation business, including changes resulting from the RIIO-3 GD FD as well as broader net zero developments. This better facilitates objective (d).

Your report sets out a proposal to clarify the arrangements for application windows and the treatment of competing applications will support a more transparent and orderly process for Entry and Storage connections. It establishes defined timeframes for accepting and progressing applications and clarifies how overlapping or competing applications interacting with the same part of the network will be assessed. We consider that this approach ensures that your CCM remains non-discriminatory to connecting parties, and that this better facilitates objective (e).

On this basis, we consider that the proposed modification would better achieve the relevant objectives, particularly (b), (c), (d) and (e), as it facilitates greater market participation and therefore competition in the supply of gas, increases charge transparency and cost reflectivity, takes into account new business developments, and establishes a non-discriminatory and more predictable system for connection charging.

## IA for Modification (b) Financial Security Requirements

The Financial Security IA (**Annex B**), follows the same methodology as the HCC IA, however in this analysis, scenarios were developed based on an assumed number of biomethane plants failing to complete resulting in a proportion of reinforcement costs not being socialised and benefits not being realised.

The modelled scenarios in this case consider the amount of new plants reaching the Final Investment Decision as part of the RIIO-3 mechanism but not proceeding to produce biomethane. We considered 10%, 20% and 30% failure rates. Each scenario builds on the HCC central scenario where a maximum of £20m, reinforcement is socialised per network, as allowed under the RIIO-3 final determinations.

The assessment found:

- Monetised benefits (emissions-linked) exceeded costs in all scenarios, with a strong Benefits Cost Ratio. This was also true where sensitivity to low/high carbon pricing was considered.
- The direct impact on consumer bills ranged from £5.61 to £6.31 for the 5-year RIIO 3 period.
- The proposal results in a less concentrated, more competitive market in all scenarios, albeit the effect being lower than for the HCC proposal in isolation.

Again, although we acknowledge some uncertainty regarding assumptions that have informed this analysis, we are confident that, even with our least optimistic assumptions, the addition of new Financial Security arrangements alongside the HCC will yield overall benefits compared the baseline position. While the introduction of the Financial Security measure reduces the Net Present Social Value (NPSV), it has the effect of reducing the total consumer bill impact across the RIIO-3 period.

## Further comments regarding Modification (b) Financial Security Requirements

The supplied report associated with modification (b) asserts that the modification has the potential to de-risk the increased likelihood of stranded assets caused by the introduction of the Biomethane Connections allowance in the RIIO-3 GD FD, thereby avoiding unnecessary costs accruing to consumers.

Under your proposal, financial security must be provided on acceptance of the Connection and Reinforcement Offer and released once the connecting party has demonstrated full and sustained output at the contracted capacity. Our IA analysis has demonstrated that the proposed CCM modification results in limited consumer bill impact, but will likely serve to mitigate significant risks posed to consumers from incomplete projects and stranded assets.

You assert that the cost of meeting security requirements is also low, compared to a developer's overall investment, and that it acts as another cost reflective signal as there is a tangible benefit to identify a connection where a reinforcement is not required. We agree that the financial security requirements, in combination with the HCC, improve the combined cost reflectivity and therefore better facilitate your CCM's achievement of objective (c).

We note that you proposed these updates to reflect the introduction of the new allowances as part of the RIIO-3 GD FD, and also the introduction of a High Cost Cap, to better clarify how reinforcement liabilities will be allocated where projects do not complete. We consider that these clarifications help ensure that risks are managed proportionately and that the allocation of liabilities is transparent and predictable for connecting parties. We therefore see requiring of Financial Security as an essential enabler for the HCC to be viable and an enabler in of increased Entry capacity more broadly. The modifications are therefore reflective of changes in Cadent's transportation business and better facilitate Objective (d).

On this basis, we consider that this modification would better achieve relevant objectives (c) and (d), as it derisks project-risk for Cadent and improves cost reflectivity, while also taking into account developments in Cadent's transportation business.

### **Ofgem's Principal Objective and Statutory Duties**

Ofgem's principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes. We also have duties to promote economic growth and to support the UK Government's Net Zero target. We consider that the modifications proposed support these objectives.

In determining what the interests of consumers are, Ofgem must include their interest in the UK Government meeting its overall Net Zero 2050 target and interim 5 yearly Carbon Budget. While the proposals will jointly result in higher annual bills for gas consumers, the impact over the RIIO-3 period is relatively small. The proposals are also necessary to give effect to policy decisions regarding new funding for biomethane, which have been introduced as part of the RIIO-3 GD FD. The resulting emissions benefits of these proposals, and the associated RIIO-3 funding mechanisms, are significant and relevant in considering how the proposals serve the long-term interest of the consumer.

Furthermore, encouragement of more producers to connect to the gas distribution network and increased biomethane output from new and existing sites in all scenarios creates opportunities for growth within the biomethane and adjacent industries. The proposals will encourage the development of a market that will be less concentrated and more insulated from economic shocks, as well as more competitive gas supply.

## **Decision Notice**

In accordance with paragraph 6 of Standard Condition 4B of the Gas Transporter Licence, the Authority has decided not to issue a direction to prevent any of the proposed modifications set out in the report you have supplied and the CCM. All proposed modifications may proceed as submitted.

Additionally, we draw your attention to the RIIO-3 Final Determinations<sup>5</sup>, published on 4 December 2025, which set out details of the 'use it or lose it' (UIOLI) mechanism for GDNs to support biomethane connections. As set out in that document, each network will have a RIIO-GD3 UIOLI allowance of £20m, with £4m available in each year. Any unused funding will be rolled into following years. There will also be an individual cap of £2m per biomethane connection. While we have decided not to veto your proposed modifications to your CCM, we emphasise that our decision pertains to charging the charging arrangements set out in your proposals only. Nothing in this decision letter should be construed as modifying or amending any underlying funding arrangements agreed and implemented as part of the RIIO-3 process.

Please note that this decision pertains only to those matters we are required to consider when deciding whether to approve proposed modifications to a connection charging methodology in accordance with SC 4B. For the avoidance of any doubt, nothing in this letter fetters our discretion to make any other decisions and take any other actions.

In the interests of transparency, we will publish this letter on our website.

Yours sincerely,

**William Duff**  
**Head of Gas & Hydrogen Systems Management and Operation**  
Signed on behalf of the Authority and authorised for that purpose

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<sup>5</sup> Biomethane Connections UIOLI, [RIIO 3 Final Determinations GD](#).