

Date

16 January 2026

Cadent Gas Limited

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Steve McMahon
Director for Network Price Controls
The Office of Gas and Electricity Markets
10 South Colonnade
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E14 4PU



RIIO3@ofgem.gov.uk

Dear Steve,

Response to Statutory Consultation on proposed changes to the licence conditions required to implement the RIIO-3 Price Control settlement for the transmission companies, gas distribution networks and the electricity system operator.

This letter represents our formal response to the Statutory Consultation on the proposed changes to the licence conditions for the RIIO-3 Price Control. Our response is not confidential and may be published by Ofgem.

We have limited our review and our comments in the main to the specific drafting of the licence conditions, rather than including detailed comments on policy decisions. The two exceptions to this are comments relating to biomethane connections (referenced in the four key areas below) and a specific proposal that an explicit mechanism should be added to make provision for changes in Employers National Insurance Contributions not built into licensee allowances and revenues. Following the publication of the Final Determinations (FD), we still have concerns in relation to some of the policy decisions that have been made and reserve our rights to consider an appeal to the Competition and Markets Authority in relation to these.

In accordance with Ofgem's requirements, we have utilised the consultation response grids to capture our comments against all licence conditions and associated documents. We have added an additional column to the grids and request that Ofgem provide details of how they have considered and implemented our responses in the final licence.

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In addition to the detailed comments in the attached issues logs there are four key areas of our response that we would like to draw your specific attention to:

- failure to enact the stated policy decision within the licence changes;
- missing information impacting our ability to make an informed response to this Statutory Consultation;
- an unexpected new policy decision contained within the licence changes that further erodes licensees and stakeholders' rights to consultation; and
- suggestions to ensure the scope and design of regulatory mechanisms related to biomethane connections effectively operate in conjunction with the recently approved entry connection charging methodology for Cadent's networks so as not to unduly constrain potential biomethane production.

We provide a summary of the areas noted above in the annex to this letter.

As you are aware, we have identified six errors in the FD cost modelling which have a significant impact on our Totex allowances, and a range of figures derived from the results of Ofgem's cost modelling stated in the draft licence (e.g., volume driver and price control deliverable unit costs). We notified Ofgem of these errors on 5th January 2026 as part of its FD Erratum process (running from 4th December 2025 to 9th January 2026). We have sought to highlight in the attached logs where these errors impact the licence drafting. At point of submission of this letter, we understand that Ofgem have confirmed that all our identified errors have been accepted as requiring correction. We look forward to seeing these errors fully corrected as the final version of our licence is published in due course. Finally, it is our expectation, as at RIIO-2, that a longer process will be required to review and finalise disaggregation of Totex allowances, with any resulting impact on figures in the licence needing to be amended as part of further consultations.

We look forward to discussing the next steps for implementing the RIIO-3 price control with you. If there is anything that you would like to discuss further, please do not hesitate to contact us.

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Yours sincerely,

A J Ball

Dr Tony Ballance
Chief Strategy & Regulation Officer

By email

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Annex: Licence Statutory Consultation response key areas for specific attention

Failure to enact the stated policy decisions within the licence changes

There are numerous areas where the licence, as currently drafted, does not enact Ofgem's stated policy decisions. We have highlighted these areas in the response grids and provided alternative drafting to ensure that the stated intention is met.

Some material examples include:

- **Specified Streetworks Costs Re-opener** – a further trigger is required in relation to additional streetworks costs associated with changes in Safety Disconnection volumes in accordance with paragraph 4.86 of the FD Gas Distribution annex.
- **Collaborative streetworks output delivery incentive** – the incentive needs to provide the maximum RoRE incentive values set out on page 79 of the FD Gas Distribution annex. The current licence drafting provides for half of that as it erroneously includes the "TIS" term in the formula in Special Condition 4.5.9. The TIS terms needs to be removed as RoRE is calculated post-TIM, as confirmed by Ofgem in response to our DDQ037.
- **Collaborative streetworks output delivery incentive** – the incentive cap needs to be period-wide rather than annual in accordance with paragraph 4.178 of the SSMD GD Annex, and as confirmed at the Gas Distribution Policy Working Group on 11th August 2025 by Ofgem.
- **7 and 28 day repair standards output delivery incentive** – the incentive needs to specifically state that it relates to preventing gas escapes in a timely way, rather than a broader incentive relating to all repair work, which is not the intention of the FD.

Missing information impacting our ability to make an informed response to this Statutory Consultation

Many of licensee's key obligations are no longer set out in the licence and are instead captured across Associated Documents.

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There are several Associated Documents¹ that were not shared as part of the Statutory Consultation and are due to be consulted on at a later date. Likewise, there are numerous terms identified in the FDs that will form part of the Regulatory Instructions and Guidance, which Ofgem has yet to make available to companies for consideration.

We have consistently expressed concerns about moving the detail and the key obligations out of the licence and the impact of this in terms of reduced governance, reduced time for consultation and removal of the opportunity to appeal to the CMA. If Ofgem has determined that the detail of a licensee's obligations is to sit within the Associated Documents, then Ofgem must treat these as equal to the licence when reviewing them and consulting on any changes.

As Ofgem knows, Associated Documents set out the detailed requirements for network companies and, in some cases, are critical components to enable companies to understand the intent and operation of the licence, as these drive the incentive properties of the framework. Not having access to, and a formal consultation on, these documents at this time significantly impairs our ability to make an informed decision on whether we can deliver the obligations being placed on us within the proposed allowances.

Where Ofgem continues with this approach, it will lead to an increase in costs for consumers. This practice significantly increases the level of regulatory risk companies are carrying; this will ultimately impact the view investors and ratings agencies have of the stability of the regulatory framework for utilities in Great Britain.

Ofgem must consult on all documents that form part of a new price control before a licensee and its board has to make a decision on whether or not to accept that price control.

Unexpected new policy decision contained within the licence changes that further erodes licensees and stakeholders' rights to consultation

There are proposed modifications to the licence that would implement policy decisions that have not yet been consulted upon in line with good practice for a price control. The most concerning of these seeks to reduce the period of consultation for decisions relating to changes to

¹ Collaborative Streetworks Governance Document, VCMi Governance Document, DPD Governance Document, SDP Governance Document



Associated Documents, PCDs and re-openers from “not less than 28 days” to “up to 28 days”.

Decisions which impact a licensee’s price control are extremely important and could have a significant impact on licensees, other industry parties and ultimately consumers.

Under the Gunning principles (R v London Borough of Brent, ex p Gunning [1985] 84 LGR 168), it is clear that licensees must be given an adequate time to respond. Applying such a blanket approach which would permit Ofgem to allow, for example, a consultation period of 24 hours or less is not appropriate or in line with the Gunning principles.

As mentioned above, the reduced consultation period is proposed to be applied to some of the most significant decisions made within the price control period, including modifying Associated Documents which detail a licensee’s obligations and adjusting a licensee’s allowance through revenue adjustment mechanisms, such as price control deliverables and re-opener uncertainty mechanisms. With more of the licensee’s obligations being transferred from the licence into Associated Documents, and more of companies’ revenues moving from non-variant ex ante allowances, what amounts to an “adequate time” for consultation on such decisions should be increased rather than decreased as the importance of the decisions has increased. Licensees must be provided with an adequate time to respond and to ensure that this legal requirement is complied with. To achieve this, the licence should retain drafting of allowing a period of not less than 28 days to respond.

Considerations to ensure the framework does not unintentionally constrain Biomethane connections

We welcome the introduction of the biomethane UIOLI allowance to facilitate new and existing biomethane connections and promote the injection of green gas into our networks. We have set out in the logs our concerns about the lack of alignment between the drafting of the UIOLI licence condition, supporting governance document and the licensee’s approved charging methodology, which need to be resolved to ensure transparency for customers and reduce risk from such projects for both customers and licensees. We have also noted that, in order to achieve the aim of the condition and avoid any potential unintended blockers for biomethane, the UIOLI funding should be available to use throughout the whole price control period and should be transferrable between Cadent’s networks under the coordinated adjustment mechanism to ensure that the funding can be spent in the networks with the most demand for such connections. To further enable biomethane green gas connections, we



consider that that General Reinforcement re-opener should be available for reinforcement required where there are clusters of biomethane plants that want to inject into a particular area of the network where the reinforcement required cannot be attributed to one specific customer. Clarity on this interpretation and the availability of funding under this re-opener is critical before any such reinforcement can take place to manage the risk for licensees and customers. We look forward to further discussions in this area.

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