Edward Allard

Industry Codes Manager

Cadent Gas Ltd

Email: gas.systems@ofgem.gov.uk

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Dear Edward,

Proposed Modifications to Cadent's Connection Charging Methodology

You submitted a revised copy of your Connection Charging Methodology ("the CCM"), together with two accompanying reports to us[1] on 24 September 2026. The reports present two proposals for Ofgem's consideration.

Report 1 contains the modifications Cadent considers necessary to facilitate offers to current biomethane entry reinforcement applicants. Report 2 contains those same modifications together with an additional methodology for managing future funding constraints. The proposals are not intended to operate in conjunction with one another and only one proposal would ultimately be implemented.

In your reports, your proposed modifications to the Cadent CCM are as follows:

(a) introducing arrangements for the funding and allocation of biomethane entry reinforcement costs in accordance with the RIIO-3 UIOLI framework, building upon the existing High Cost Cap ("HCC") principles through the introduction of a capacity-based funding allowance, updating financial security arrangements, and revising the treatment of reinforcement operating expenditure; and

(b) introducing additional arrangements for prioritising projects where eligible requests for UIOLI funding exceed the funding available (applicable to report 2).

[1] 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.

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.[2] Having regard to the modifications proposed, we have decided not to veto the modifications in report 1. 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(3) 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.[3]

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, and includes a timetable for implementing the changes. We have 30 working days starting from the date this information is submitted to us to issue a direction to the licensee that the modifications shall not be made.[4] 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): Introducing biomethane entry reinforcement funding arrangements through the RIIO-GD3 UIOLI framework

You propose to revise sections 4.2.2 to 4.2.12 of your CCM to implement the RIIO-3 Biomethane Entry Reinforcement Use It or Lose It ("UIOLI") arrangements and update the charging principles applicable to biomethane entry reinforcement projects. You explain that the proposed modifications build upon the High Cost Cap ("HCC") arrangements introduced through the 2025 CCM modification[5] and are intended to ensure the CCM complies with the requirements of Special Condition 3.21 and the associated UIOLI Governance Document.[6]

In both reports, you set out arrangements for allocating available UIOLI funding to eligible biomethane reinforcement projects, including the operation of an application window process, the nomination of connection points, and the apportionment of available funding

[2] Standard Condition 4B, paragraph 5 Gas Transporter Standard Licence Conditions
[3] The relevant objectives are set out in SC 4B, paragraph 5.
[4] SC 4B, paragraph 6 Gas Transporter Standard Licence Conditions
[5] Proposed modifications to Cadent connection charging methodology: decision | Ofgem
[6] Tracked-modification-of-SpC-3-21.pdf

and reinforcement costs between customers. You also introduce charging arrangements for shared reinforcement projects and explain the proposed treatment of financial security requirements for customers seeking to access UIOLI funding.

You further propose to amend the way in which entry reinforcement operation and maintenance costs are recovered. Rather than recovering forecast lifetime operation and maintenance costs upfront through connection and reinforcement charges, the proposed modifications introduce an ongoing Maintenance and Operation Agreement through which those costs would be recovered over the lifecycle of the reinforcement asset.

Modification (b): Introducing funding constraint and project prioritisation arrangements (Report 2 only)

Report 2 contains the modifications described above together with additional arrangements that would apply where requests for UIOLI funding exceed the funding available. Specifically, you propose to introduce Allocation Criteria to determine how available UIOLI funding would be allocated between eligible projects where a funding constraint exists. The proposed criteria establish a prioritisation methodology that would be applied where available funding is insufficient to support all eligible projects. You have described this as a 'future proof' methodology in the event of a funding constraint in the price control.

You suggest that the modifications would better achieve relevant objective (a) and (b).

You have proposed that all changes take effect from 09 November 2026.

Our Comments

Modification (a): Introducing biomethane entry reinforcement funding arrangements through the RIIO-GD3 UIOLI framework

We do not object to this modification. We agree that the proposed modifications are appropriate and reflect the policy positions previously established through Ofgem's decision on Cadent's 2025 CCM modification, the RIIO-GD3 Final Determinations, the Biomethane Connections UIOLI Governance Document and the Biomethane Distributed Entry Reinforcement UIOLI allowance established under Special Condition 3.21 of the Gas Transporter Licence.

We note that the proposed modifications build upon arrangements previously introduced through Cadent's 2025 CCM modification and are intended to implement the RIIO-GD3 Biomethane Entry Reinforcement Use It or Lose It (UIOLI) framework. The proposal retains a number of the key principles underpinning the existing framework, including the provision

of capped support towards eligible biomethane reinforcement costs, the allocation of reinforcement costs between benefiting parties, arrangements for shared reinforcement projects and the management of stranded asset risk through financial security requirements.

We also note Cadent's view that a further impact assessment is not required. We agree with this position. The principal policy concepts underpinning the proposal were previously considered through Cadent's 2025 CCM modification and associated impact assessment. The proposed modifications develop and operationalise those arrangements within the CCM, rather than introducing fundamentally new charging principles or a materially different policy objective.

You suggest that this modification would better achieve relevant objective (a) and (b). We agree. We also believe the modifications better achieve (c) and (d). The proposed modifications introduce the charging methodology required to implement the Biomethane Distributed Entry Reinforcement UIOLI allowance established under Special Condition 3.21 and the associated Biomethane Connections UIOLI Governance Document. Without these arrangements, Cadent would not have a mechanism within its CCM to allocate available UIOLI funding, apportion reinforcement costs or make reinforcement offers to eligible biomethane customers. The modifications therefore facilitate the discharge by Cadent of obligations imposed on it under the Act and by its Licence (objective (a)).

The proposed modifications also facilitate competition in the supply of gas (objective (b)). Under the current arrangements, customers are required to pay forecast lifetime operation and maintenance costs upfront as part of their reinforcement offer. The proposed modifications replace this approach with ongoing recovery through a Maintenance and Operation Agreement, reducing upfront costs for biomethane connection applicants and bringing charging arrangements more closely into line with those faced by other network users. The modifications may therefore reduce barriers to connection for prospective biomethane producers seeking access to the gas distribution network.

The proposed modifications also better facilitate objective (c). The introduction of arrangements governing the allocation of available UIOLI funding, the apportionment of reinforcement costs between beneficiaries and the recovery of operation and maintenance costs through an ongoing agreement provides a more direct link between the costs incurred by Cadent and the charges payable by customers benefiting from reinforcement. The modifications therefore result in charges which, so far as is reasonably practicable, reflect the costs incurred by Cadent in carrying out its transportation business.

Finally, this modification ensures that your CCM properly takes account of developments in your transportation business (objective (d)). Under RIIO-GD3, Cadent has access to funding

through the Biomethane Distributed Entry Reinforcement UIOLI allowance to support eligible biomethane reinforcement projects. The proposed modifications introduce the charging, cost allocation and cost recovery arrangements required to administer that funding through Cadent's connection charging framework. The modifications therefore ensure that the CCM reflects the evolving arrangements under which biomethane reinforcement projects are assessed, funded and delivered.

Report 1 contains the modifications that Cadent considers necessary to facilitate offers to current biomethane entry reinforcement applicants and implements the key charging, funding, cost allocation and governance arrangements required to give effect to the Biomethane Entry Reinforcement UIOLI framework.

Modification (b): Introducing funding constraint and project prioritisation arrangements (Report 2 only)

We object to this modification. We note that the proposed Allocation Criteria are intended to determine which eligible projects receive an apportionment of UIOLI funding, and the amount they receive, where requests for funding exceed the available allowance.

We also note that the proposed Allocation Criteria represent the most significant new feature within the 2026 CCM proposals. Unlike the majority of the modifications contained within Report 1, the proposed prioritisation methodology has no direct equivalent in Cadent's 2025 CCM modification, the Biomethane Connections UIOLI Governance Document, or the Biomethane Distributed Entry Reinforcement UIOLI allowance established under Special Condition 3.21 of the Gas Transporter Licence. Rather than implementing an existing approved policy framework, the proposal introduces a new methodology for determining which eligible projects receive an apportionment of UIOLI funding, and the amount they receive, where requests for UIOLI funding exceed the available allowance.

The proposed methodology would apply only in circumstances where requests for UIOLI funding exceed the available allowance. However, no such circumstances have yet arisen and the conditions under which a future funding constraint may occur remain uncertain. The number and characteristics of applications, the funding available, and the considerations relevant to prioritisation may differ materially from those currently anticipated. As a result, the appropriateness of the proposed methodology cannot be fully assessed until the circumstances in which it would operate are known.

We also note that the proposed methodology assesses project efficiency by reference to the cost of reinforcement relative to the additional network capacity enabled by the project. Whilst this provides a clear and objective basis for ranking projects, it may not fully capture other

factors that could be relevant when determining how limited funding should be allocated between competing applicants. For example, the relative benefits delivered by different projects, the characteristics of individual applications, or other considerations that may become relevant in a future funding-constrained environment.

Finally, we note the interaction between the proposed methodology and Standard Special Condition D12.[7] The proposed Allocation Criteria assess project efficiency by reference to requested capacity and flow rates, whereas Standard Special Condition D12 permits applicants to request flow rates lower than the maximum capacity available at a connection point. Depending on how the proposed methodology operates in practice, applicants making use of these arrangements could receive a different efficiency ranking to applicants requesting higher flow rates. We therefore consider that further consideration may be required to establish whether the proposed prioritisation methodology is fully consistent with the wider licence framework.

It is not clear, given the points set out above, how Business Rule 10 would further Relevant Objective A, in particular how it would give effect to the full intention of licence condition SSC D12 because of the potential compromise the dispute resolution provisions. It is also unclear what the effect of defining 'efficiency' so narrowly would be on competition, and therefore whether BR10 can be said to further Relevant Objective B.

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-GD3 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-GD3 funding mechanisms, are significant and relevant in considering how the proposals serve the long-term interest of the consumer.

[7] Standard Special Conditions standard_special_conditions_gas_-_part_d.pdf

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 5 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 Report 1 that you have supplied. All proposed modifications in this report may proceed as submitted.

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.

We also note that this application is unusual in that Cadent submitted two reports containing separate proposals for modification of the CCM. In this instance, Report 2 incorporated all of the modifications contained within Report 1 together with an additional proposed modification relating to funding constraint and project prioritisation arrangements.

Given this structure, we considered both reports as part of our assessment and compared the modifications proposed under each report when reaching our decision. For the reasons set out in this letter, we have decided not to issue a direction in respect of the modifications proposed in Report 1 and have determined that the additional arrangements proposed in Report 2 should not be made.

However, this should not be taken as an indication that we would adopt the same approach in future modification processes. Our expectation is that licensees will submit a single, clearly defined proposal for consideration under Standard Condition 4B of the Gas Transporter Licence.

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

Yours sincerely,

Andrew Ryan
Head of Gas System Charging
Signed on behalf of the Authority and authorised for that purpose