

Reference
Project Union Reopener

Date
15 March 2023

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Ofgem - Networks
By Email:
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Project Union
Net Zero Pre-construction and small projects Re-opener Consultation

Cadent owns and operates four of the eight gas distribution networks in the UK. Our pipes carry gas to 11 million homes, schools, hospitals and businesses in the North West of England, the West Midlands, the East of England and North London. As an organisation at the centre of the UK's energy transition, we stand firmly behind the UK's commitment to deliver net zero by 2050.

We are playing a leading role alongside the other gas networks to demonstrate the gas grid's capability to deliver hydrogen to communities across the UK, to achieve net zero at least cost and with least disruption.

Thank you for the opportunity to respond to this consultation. The efficient and flexible deployment of net zero re-openers such as this one will be key to enable the timely delivery of vital net zero projects.

On the attached pages you will find Cadent's response to the consultation questions. Please get in touch if you would like us to expand on any of the points made in this submission.

A handwritten signature in blue ink that reads "S. Easterbrook".

Stuart Easterbrook
Head of Net Zero Energy Frameworks, Cadent

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Q1. Do you agree with our minded-to decision to approve funding for the Project under the NZASP re-opener mechanism, and at the value proposed?

Q2. Do you agree with our assessment of the Project's needs case?

Yes, we support your assessment of the Needs Case.

Q3. Do you agree with our assessment of the design and efficient costs of the Project's work packages?

We can see the arguments on both sides for the inclusion or exclusion of costs. One element we would like to comment on is the approach to office costs under programme management in paragraph 2.19.

The decision to disallow these costs are justified on the basis that they should be business as usual. It is an accepted principle when allocating costs to a project, that these should be inclusive of appropriate overheads, property costs included. Should the activity be delivered through an external contractor, then they would also include appropriate overheads. As a principle therefore, we believe allocated resource costs should include an element of overheads required to allow the resource to function effectively.

Q4. Do you agree with our minded-to decision to reduce NGT's proposed contingency costs of 7.5% to 0%?

Q5. Do you agree with our minded-to decision on the company contribution level?

We do not agree with the proposed approach regarding the contingency and company contribution. This funding application is for a Feasibility/Pre-FEED study. Ofgem established the Net Zero and Re-opener Development allowance to provide funding for exactly this type of project activity, as set out in the Governance document. National Gas Transmission's decision to progress this work as a single project for valid reasons, has resulted in the total cost exceeding the NZARD project cap of £2m. Had National Gas Transmission decided to break down the project into separate elements, e.g. per pipeline section, then the cap would not have been reached. Rather than treat this project as an Innovation, it must be treated as an above cap Net Zero and Re-opener Development project and assessed on that basis. A company contribution is therefore not appropriate or consistent.

Similarly, setting an aggressive target cost with the expectation that any cost overruns are the networks responsibility, is also inconsistent with the operation

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of the NZARD UIOLI allowance. Combining this with the requirement for a company contribution creates a significant and unjustifiable disconnect between the treatment of this net zero Pre-FEED and other comparable albeit smaller scale Pre-FEEDs.

Q6. Do you have any views on the proposed project deliverables for NGT, and whether further deliverables are required?

We support the deliverables proposed by our colleagues in National Gas Transmission, although we would note that a reduced number may be more practical bearing in mind the short duration of the project. A reduced number of deliverables, reported on at the end of the project could represent a more manageable approach for all concerned.

The direction places obligations on the Licencee to provide updates on 11 Deliverables should the expected completion dates change.

Q7. Do you have any views on the proposed direction for the Project contained in Appendix 2?

We have no comments to make on the Project direction beyond noting the high density of deliverables and reporting requirements for a relatively short project.