

# Consultation

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## **RIIO-2 Re-opener Applications 2024 Draft Determinations – GD Annex**

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We<sup>1</sup> are consulting on a number of gas transport licensees' re-opener applications that were submitted in the 25 January 2024 to 31 January 2024 and 9 July 2024 to 16 July 2024 re-opener windows. The applications were submitted under the following re-opener mechanisms: Diversions and Loss of Development Claims Policy Re-opener, Multi Occupancy Buildings (MOBs) Safety Re-opener and New Large Load Connections Re-opener. We would like views from people with an interest in gas transmission (GT) or gas distribution (GD). We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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

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## 1. Introduction

1.1 This document sets out our Draft Determinations for applications submitted under the re-opener mechanisms listed in **Table GD1** below. Applications were all submitted during the following windows:

- 25 January 2024 to 31 January 2024: MOB Safety Re-opener (Special Condition (SpC) 3.21) and New Large Load Connections Re-opener (SpC 3.22)
- 9 July 2024 to 16 July 2024: Diversions and Loss of Development Claims Policy Re-opener (SpC 3.20).

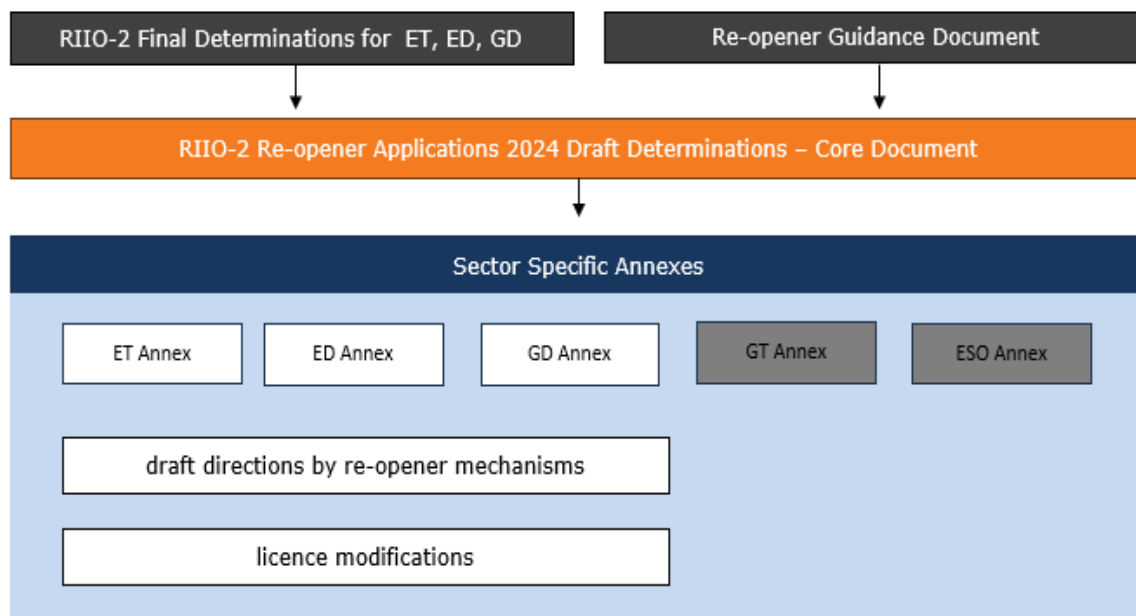
1.2 Since submissions, licensees have also provided additional information through Supplementary Question (SQ) responses.

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

Re-opener mechanism	Network Company	Re-opener Applications No. of projects	Re-opener Applications – forecast cost (£m)
Diversions and Loss of Development Claims Policy Re-opener	Cadent	45	91.49
Diversions and Loss of Development Claims Policy Re-opener	Northern Gas Networks	-	-
Diversions and Loss of Development Claims Policy Re-opener	Scotia Gas Networks	4	15.41
Diversions and Loss of Development Claims Policy Re-opener	Wales & West Utilities	13	42.27
MOB - Safety Re-opener	Cadent	4	38.61
MOB - Safety Re-opener	Northern Gas Networks	-	-
MOB - Safety Re-opener	Scotia Gas Networks	-	-
MOB - Safety Re-opener	Wales & West Utilities	-	-
New Large Load Connections Re-opener	Cadent	20	18.23
New Large Load Connections Re-opener	Northern Gas Networks	-	-
New Large Load Connections Re-opener	Scotia Gas Networks	-	-
New Large Load Connections Re-opener	Wales & West Utilities	13	10.75
<b>Total</b>	<b>Cadent</b>	<b>69</b>	<b>148.33</b>
	<b>Northern Gas Networks</b>	<b>-</b>	<b>-</b>
	<b>Scotia Gas Networks</b>	<b>4</b>	<b>15.41</b>
	<b>Wales &amp; West Utilities</b>	<b>26</b>	<b>53.03</b>
	<b>All GDNs</b>	<b>99</b>	<b>216.77</b>

1.3 How this document fits with the wider Re-opener Applications 2024 Draft Determinations publication, is set out in Figure 1 below. We intend this document to be read alongside several other documents, including the Re-opener Applications 2024 Draft Determinations Core Document and relevant annexes.

**Figure 1: Navigating our Draft Determinations**



## 2. Summary of our Draft Determinations

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

**Table GD2: Summary of our GD Draft Determinations**

Sector Group	Network	Company Requested Number of Projects	Forecast costs £m	Ofgem's DD - Projects Approved*	Projects Not Approved	Cost adjustment £m	Allowances £m
<b>Cadent</b>	EoE	34	58.06	27	7	-32.38	25.68
<b>Cadent</b>	Lon	9	19.63	7	2	-15.20	4.43
<b>Cadent</b>	NW	18	50.74	16	2	-21.72	29.02
<b>Cadent</b>	WM	8	19.90	5	3	-16.49	3.41
<b>Northern Gas Networks</b>	NGN	-	-	-	-	-	-
<b>Scotia Gas Network</b>	Sc	4	15.41	3	1	-3.60	11.81
<b>Scotia Gas Network</b>	So	-	-	-	-	-	-
<b>Wales &amp; West Utilities</b>	WWU	26	53.03	24	2	-0.43	52.59

\*We refer to draft determinations as 'Ofgem's DD'. Projects approved also include partial approval.

### 3. Common considerations and decisions

#### Assessment process

- 3.1 We have assessed the needs case and optioneering of all projects submitted under all listed GD re-opener mechanisms within this annex. Our assessment of the MOBs Safety Re-opener (SpC 3.21) is outlined in Chapter 5 below.
- 3.2 In line with SpC 3.20 and 3.22 respectively, we are satisfied that projects submitted under the following re-opener mechanisms are within scope and appropriate optioneering has been considered to address the needs case:
- Diversions and Loss of Development Claims Re-opener (SpC 3.20): Encroachments can significantly risk assets and can prevent timely and safe maintenance of the network, in accordance with obligations under the Pipeline Safety Regulations 1996 (PSR). If a pipe were to fail beneath a structure, this could lead to a gas leak and subsequent property evacuations. Similarly, environmental factors, outside of licensee’s control, can lead to damaged assets. These situations could lead to added cost and disruption to consumers if the necessary diversions or remedial work is not carried out.
  - New Large Load Connections Re-opener (SpC 3.22): When a customer seeks to connect a large load to a Gas Distribution Network’s (GDN) network, there may be insufficient capacity in the existing network to allow connection of new gas demands. There is a risk of network pressure dropping below safe operational limits meaning GDNs may need to reinforce the network to meet pressure compliance requirements and maintain security of supply. If connections were made without the necessary reinforcement, this could lead to un-planned gas interruptions and potential safety issues in consumer properties. Timely connection of new large loads may also be required as renewable sources of electricity become increasingly important.<sup>2</sup>
- 3.3 Further detail on optioneering can be found in Appendix 2.

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<sup>2</sup> [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#) – GD annex, Chapter 4

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## **Cost adjustments**

- 3.4 We have assessed all cost submissions and consider submitted costs under each re-opener mechanism are broadly efficient but propose to disallow some of these costs. The adjustments are set out in subsequent chapters.
- 3.5 Under the re-opener mechanisms listed in this annex, directions are issued by Ofgem to set out any allowance adjustments. These allowances are adjusted by changing the value of the re-opener terms listed within the licence (SpC 3.20 DIVt term, SpC 3.21 MOBSt term and SpC 3.22 NLLRt term) and the Regulatory Years to which that adjustment relates. We have included a draft direction in Appendix 1 of this annex which sets out our proposed directions. We will issue formal directions to set out any adjustments alongside our Final Determinations.
- 3.6 We propose to set Price Control Deliverables (PCDs) for some re-opener allowances which are set out in the chapters below. If we decide to implement these proposals, we will undergo the statutory modification process and consult on proposed licence modifications alongside our Final Determinations.

### **Questions**

GD.Q1. Do you have any views on the draft directions contained in Appendix 1?



## 4. Diversions and Loss of Development Claims Policy Re-opener

### Questions

GD.Q2. Do you agree with our assessment of applications under the Diversions and Loss of Development Claims Policy Re-opener and our Draft Determinations? Please include your views on our assessment of the needs case, optioneering and draft allowances.

### Purpose of the re-opener mechanism

- 4.1 GDNs are, on occasions, required to move and re-route mains and associated services as a result of events outside of the licensee’s control, including third-party activities or the impact of adverse weather. These works are known as “diversions”. Some of these costs are recoverable from third parties. However, in some instances, where not recoverable, GDNs can request for complete or partial costs of diversions projects.
- 4.2 On 14 May 2024, we published a decision<sup>3</sup> on proposals to modify SpC 3.20 of the Gas Transporter licence, with the modifications coming into effect from 9 July 2024. We requested that the GDNs submit their re-opener applications between 9 July 2024 and 16 July 2024 with the updated licence modifications now in effect.
- 4.3 Under the updated SpC 3.20, GDNs can apply for additional funding for:
- Diversion costs or the cost of reasonable alternative solutions that avoid diversion costs,
  - Loss of development claims, or
  - Costs of diverting gas assets due to adverse environmental factors.

### Applications received and summary of our Draft Determinations

- 4.4 **Table GD3** below highlights what re-opener applications we have received from each licensee and a summary of our Draft Determinations.

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<sup>3</sup> [Decision on a proposal to modify Special Condition 3.20 of the Gas Transporter Licence held by the Gas Distribution Networks | Ofgem](#)

**Table GD3: Applications Received and Summary of our Draft Determinations**

<b>Sector Group</b>	<b>Network</b>	<b>Company Requested Number of Projects</b>	<b>Company Requested Forecast costs £m</b>	<b>Ofgem's DD - Projects Approved*</b>	<b>Ofgem's DD- Projects Not Approved</b>	<b>Ofgem's DD - Cost adjustment £m</b>	<b>Ofgem's DD – Allowances £m</b>
<b>Cadent</b>	EoE	22	35.18	16	6	-16.99	18.19
<b>Cadent</b>	Lon	8	8.86	7	1	-4.43	4.43
<b>Cadent</b>	NW	8	35.77	7	1	-12.19	23.58
<b>Cadent</b>	WM	7	11.68	5	2	-8.27	3.41
<b>Northern Gas Networks</b>	NGN	-	-	-	-	-	-
<b>Scotia Gas Network</b>	Sc	4	15.41	3	1	-3.60	11.81
<b>Scotia Gas Network</b>	So	-	-	-	-	-	-
<b>Wales &amp; West Utilities</b>	WWU	13	42.27	11	2	-0.43	41.84

*\*We refer to draft determinations as 'Ofgem's DD'. Projects approved also include partial approval.*

## Cost assessment

### Cadent

4.5 **Table GD4a** below highlights our Draft Determinations for Cadent’s Diversions and Loss of Development Claims Policy Re-opener.

**Table GD4a: Summary of Cadent’s request under the Diversions and Loss of Development Claims Policy Re-opener and Ofgem’s Draft Determinations (£m, 18/19 prices)**

Project	Trigger	Cadent submitted costs	Ofgem adjustments	Ofgem assessed efficient costs
Named diversion projects	Diversion	17.50	-4.38	13.12
Encroached mains diversions	Diversion	22.40	-16.55	5.85
Encroached services	Diversion	33.30	-23.91	9.39*
Structural removal/legal remediation	Diversion	0.33	9.98	10.31
Completed, future and forecasted projects	Loss of development claims	8.30	-6.38	1.92
Ulverston and Butterwick projects	Environmental	9.66	-0.64	9.02
<b>Total</b>		<b>91.49</b>	<b>-41.88</b>	<b><u>49.61</u></b>

\*Adjusted for ongoing efficiencies in line with RIIO-GD2 Final Determinations (FDs).

4.6 We are proposing to adjust Cadent’s costs for the following:

- Overheads rates,
- Unit costs,
- Allowance for structural removal/legal remediation activities,
- Future loss of development claims.

These adjustments are explained below.

Named diversions projects and overheads rates

- 4.7 Cadent has proposed nine complex diversions projects. These are larger projects to address third-party encroachment of assets with a bespoke narrative for each project.
- 4.8 Cadent estimates a 35-40% overheads rate across the projects. We consider this rate to be very high and has not been robustly justified by Cadent. We propose to reduce this to an 11% overheads rate, in line with the environmental trigger projects and the New Large Loads Connections Re-opener discussed in Chapter 6. Our rationale on the suitability of an 11% overheads rate is also outlined in Chapter 6 paragraph 6.9. We welcome Cadent to provide evidence and robust justification for these rates as part of their consultation response.

Unit costs for encroached mains diversions

- 4.9 Encroached mains diversions are smaller-scale diversions projects all with similar solutions predominantly involving 2-3 metre diversions. Cadent plans to deliver 461 remediations in RIIO-GD2. At submission, Cadent had completed 26 encroachments with a total cost of £433,950. Cadent expects to deliver the remainder and proposes a PCD to protect consumers against under-delivery.
- 4.10 For forecasted encroached mains, Cadent averaged historical costs to develop a unit cost of £34,112 per encroachment. We consider these unit costs to be very high and have not been robustly justified by Cadent. We propose to reduce the unit cost to the median cost of completed projects to date within RIIO-GD2, which is £12,444. This results in the following overall cost breakdown:
- 26 completed encroachments - £433,950,
  - 435 remaining encroachments (unit cost £12,444) - £5.41m,
  - Total draft allowance - £5.85m,
  - Downwards adjustment - £16.55m.

We welcome Cadent to provide evidence and robust justification for their unit costs as part of their consultation response.

Unit costs for encroached services

- 4.11 An encroached service is a gas service that has been compromised by building work which could result in an unsafe situation. Cadent is seeking funding to address 16,505 encroached services over the RIIO-GD2 period.
- 4.12 Cadent has derived a unit cost for each network by taking all associated costs relating to an encroached service relay or alternation and dividing them by

workload. We consider these unit rates to be very high and have not been robustly justified.

- 4.13 We propose to reduce these unit costs to reflect allowances awarded at RIIO-GD2 FDs.<sup>4</sup> Cadent was awarded £0.8m to address 1,385 services, giving a unit cost of £577 per service. We propose to apply this rate to the 16,505 encroached services within this re-opener application, giving a downward adjustment of £23.91m and an overall allowance of £9.39m. There has not been sufficient justification on why the cost per service has increased significantly since RIIO-GD2 FDs. We have adjusted for ongoing efficiencies in line with RIIO-GD2 FDs.<sup>5</sup> We welcome Cadent to provide evidence and robust justification for their unit costs as part of their consultation response.

#### Structural removal/legal remediation

- 4.14 This activity involves physically removing structures or pursuing legal resolutions when these are more efficient than a pipeline diversion. Cadent has not included forecasted costs for years four and five and instead propose an additional re-opener window at RIIO-GD2 close-out to provide higher-confidence cost evidence. We consider this work to be a core activity and therefore propose to create a PCD with an award of £9.98m in the remaining two years of RIIO-GD2. This allowance is based on cost range estimates provided by Cadent during the SQ process.

#### Completed, future and forecasted projects - loss of development claims

- 4.15 Cadent has submitted completed (£1.9m) and planned future (£6.35m) project costs. All future project costs are scheduled for delivery in year 5 of RIIO-GD2. Cadent has not submitted additional forecasted costs for this work, highlighting difficulty in predicting final cost claims, and instead propose an additional re-opener window at RIIO-GD2 close-out to provide higher-confidence cost evidence. We propose to disallow £6.35m for future claims as, although the re-opener mechanism allows for inclusion of forecasted costs, we have concerns over these costs being correct at this stage. We are open to directing an additional window when there is more certainty over costs.

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<sup>4</sup> [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#) – Cadent annex, Table 53

<sup>5</sup> [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#) – GD Annex, Chapter 1

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Ulverston and Butterwick projects

4.16 The overheads rates for these projects are 14% and 35% respectively. We consider these rates to be high and have not been robustly justified by Cadent. We propose to reduce these overheads to 11% (£0.263m reduction for Ulverston, and £0.374m reduction for Butterwick) in line with the named diversions projects and the New Large Load Connections Re-opener discussed in Chapter 6. Our rationale on the suitability of an 11% overheads rate is also outlined in Chapter 6 paragraph 6.9. We welcome Cadent to provide evidence and robust justification for their rates as part of their consultation response.

PCDs

4.17 We propose the following PCDs to protect consumers from under-delivery:

- Named diversion projects - £13.12m,
- Encroached mains diversions – 461 to be delivered in RIIO-GD2, £5.85m,
- Structural removal/legal remediation – forecasted costs for years four and five of RIIO-GD2, £10.31m.

**SGN**

4.18 **Table GD4b** below highlights our Draft Determinations for SGN’s Diversions and Loss of Development Claims Policy Re-opener.

**Table GD4b: Summary of SGN’s request under the Diversions and Loss of Development Claims Policy Re-opener and Ofgem’s Draft Determinations (£m, 18/19 prices)**

<b>Project</b>	<b>Trigger</b>	<b>SGN submitted costs £m</b>	<b>Ofgem adjustments £m</b>	<b>Ofgem assessed efficient costs £m</b>
Cowdenhill	Diversion	1.75	-1.75	0.00
Meadowhill	Environmental	6.70	-0.47	6.23
Pitcairngreen	Environmental	2.87	0.00	2.87
Below 7bar washouts	Environmental	4.09	-1.38	2.71
Moorfield	Loss of development claims	0.00	0.00	0.00
<b>Total</b>		<b>15.41</b>	<b>-3.60</b>	<b><u>11.81</u></b>

4.19 We are proposing to adjust SGN’s costs for the following:

- Activities not within re-opener scope,

- Contingency,
- Volume adjustment.

These adjustments are explained below.

#### Cowdenhill – activities not within re-opener scope

4.20 The Cowdenhill project refers to a quarry which has encroached too close to a pipeline which puts the pipeline at risk and requires a diversion. There are ongoing legal proceedings to recover costs from the third party. SGN is waiting on an update around these proceedings so have been unable to confirm if costs are recoverable. SpC 3.20.6(d) states that applications relating to Diversion Costs requires justification that these are “efficient and unavoidable”. Additionally, as per RIIO-GD2 FDs GD annex paragraph 4.28<sup>6</sup>, GDNs will need to demonstrate that diversion costs driven by a third party are efficient and cannot be fully recovered from the requesting third party. For this reason, we are proposing to disallow costs for this project as there has not been robust justification for these costs. We welcome SGN to provide evidence and robust justification as part of their consultation response.

#### Meadowhill contingency

4.21 The Meadowhill project has been triggered by a washout which has led to complete loss of lateral and bedding support causing the pipeline to become exposed. SGN has included a cost uplift of 20% (£932,500 in 18/19 prices) to account for risk on remaining work to be carried out. We propose to reduce this to 10% (£466,250 in 18/19 prices) in order to bring this in line with other re-opener applications. During the SQ process, WWU confirmed their standard risk rate for diversions is 10%. We do not consider that SGN has robustly justified a 20% rate. We welcome SGN to provide evidence and robust justification for this rate as part of their consultation response.

#### Below 7bar washouts volume adjustment

4.22 The below 7bar washouts are river crossings in Scotland which have or may have suffered washouts due to soil erosion. It is predicted that up to 150 river crossings in the region will require remediation, but full inspection of these sites has not been possible due to high water levels. 29 crossings have been identified with remediation costs of £0.55m which we propose to fund. SGN has requested

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<sup>6</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final\\_determinations\\_-\\_gd\\_annex\\_revised.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determinations_-_gd_annex_revised.pdf)

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£2.76m for the remaining 121 crossings still to be identified; we propose to partially disallow £1.38m. SGN has confirmed one contracting team has completed eleven washout jobs in RIIO-GD2 to date. Although this is expected to rise to three teams by July 2024, we have concerns on how all 150 crossings will be resourced. We welcome SGN to provide evidence as part of their consultation response demonstrating how these will all be resourced in RIIO-GD2.

#### Moorfield

4.23 Moorfield relates to a loss of development claim currently being reviewed by the courts for £0.87m. SGN is not seeking funding at this stage, however, if the judgement were to go against SGN, SGN would seek to update their funding application. As SGN has requested £0m funding in their submission, we are consulting on our minded-to position based on the information provided.

#### **WWU**

4.24 As part of the SQ process, WWU updated costings for four projects which resulted in approximately a £0.2m cost reduction. WWU is therefore now requesting £44.23m as part of their re-opener submission (see **Table GD4c**) below.

**Table GD4c: Summary of WWU’s request under the Diversions and Loss of Development Claims Policy Re-opener and Ofgem’s Draft Determinations (£m, 18/19 prices)**

<b>Trigger</b>	<b>WWU submitted costs £m</b>	<b>WWU RIIO-GD1 reduction £m*</b>	<b>Ofgem adjustments £m</b>	<b>Ofgem assessed efficient costs £m</b>
Diversion	5.89	-0.27	0.00	5.62
Loss of development claims	35.79	-1.89	-0.43	33.47
Environmental	2.75	0.00	0.00	2.75
<b>Total</b>	<b>44.43</b>	<b>-2.16</b>	<b>-0.43</b>	<b>41.84</b>

*\*Projects which spanned RIIO-GD1 and RIIO-GD2: removal of costs that occurred in RIIO-GD1 and are therefore not within the scope of this re-opener submission.*

4.25 We are proposing to adjust WWU’s costs for the following:

- Forecasted loss of development claims.

These adjustments are explained below.

#### Forecasted loss of development claims

4.26 WWU has submitted costs for two forecasted loss of development claims and we acknowledge that the re-opener mechanism does allow inclusion of expected



costs. Although this is the case, we do not have confidence that these are going to be correct costs. We therefore propose to disallow forecasted loss of development claims (£0.43m). We are open to directing an additional window for this activity when there is more certainty over costs.

#### PCDs

4.27 We propose the following PCD to protect consumers against under-delivery. This would cover projects where we have concerns around delivery timelines and completion within RIIO-GD2:

- Named diversions projects - £5.62m.

## 5. Multi Occupancy Buildings (MOBs) Safety Re-opener

### Cadent

#### Questions

GD.Q3. Do you agree with our Draft Determination of Cadent’s application under the MOBs Safety Re-opener?

#### Purpose of the re-opener mechanism

- 5.1 The MOBs Safety Re-opener is a common re-opener to respond to any new safety standards for MOBs and can also provide additional funding for safety-related maintenance, repairs and riser surveys in medium rise MOBs.
- 5.2 Under SpC 3.21, licensees can apply for additional funding where a) there have been changes to safety requirements relating to MOBs and/or b) the development of an approved MOB safety works programme that results in material changes to costs of carrying out licenced activity. Cadent has applied under SpC 3.21.4 (b).
- 5.3 At RIIO-GD2 Business Plan submissions, Cadent requested £98.6m for MOBs maintenance. At RIIO-GD2 FDs, Ofgem made a downward adjustment of £59.2m due to serious concerns about the significant increases in proposed baseline costs in RIIO-GD2 and Cadent’s ability to resource the workloads. Cadent was therefore awarded £39.4m in baseline funding.
- 5.4 Cadent has forecast £78.1m for MOBs maintenance. Subtracting the £39.4m baseline allowance Cadent received at RIIO-GD2 FDs, Cadent is requesting £38.6m in additional funding to deliver on these works.

#### Applications received and summary of our Draft Determination

- 5.5 **Table GD5a** below highlights what re-opener applications we have received from each licensee and a summary of our Draft Determination.

**Table GD5a: Applications Received and Summary of our Draft Determination**

Sector Group	Network	Company Requested Number of Projects	Company Requested Forecast costs £m	Ofgem’s DD Projects Approved*	Ofgem’s DD Projects Not Approved	Ofgem’s DD Cost adjustment £m	Ofgem’s DD Allowances £m
Cadent	EoE	1	12.33	-	1	-12.33	-
Cadent	Lon	1	10.77	-	1	-10.77	-
Cadent	NW	1	7.29	-	1	-7.29	-
Cadent	WM	1	8.22	-	1	-8.22	-
Northern Gas Networks	NGN	-	-	-	-	-	-
Scotia Gas Network	Sc	-	-	-	-	-	-
Scotia Gas Network	So	-	-	-	-	-	-
Wales & West Utilities	WWU	-	-	-	-	-	-

\*We refer to draft determinations as 'Ofgem’s DD’. Projects approved also include partial approval.

5.6 We propose to disallow this application under the MOB’s Safety Re-opener.

5.7 Under SpC 3.21.4 (b), Cadent must demonstrate changes to an “Approved MOB Safety Works Programme”, which is defined as “a programme of safety related works, including maintenance, repairs and surveys in Multiple Occupancy Buildings between 3-5 floors developed in agreement with the HSE”. Furthermore, SpC 3.21.6 (a) provides that an application must “specify the changes set out in paragraph 3.21.4 to which the application relates”.

5.8 We consider that Cadent has not demonstrated changes to an Approved MOB Safety Works Programme within the application and is, therefore, not within scope of the re-opener mechanism.

5.9 Cadent’s application has not sufficiently allayed the concerns that we expressed in RIIO-GD2 FDs in relation to the deliverability of its proposed workload volumes. PSR requires Cadent to keep pipelines in efficient working order and in good repair. Cadent has received funding for this work at RIIO-GD2 FDs and we therefore expect Cadent to comply fully with its PSR obligations and to carry out any remediation work in RIIO-GD2 that is needed to appropriately mitigate MOB’s safety risks.

## 6. New Large Load Connections Re-opener

### Questions

GD.Q4. Do you agree with our assessment of applications under the New Large Load Connections Re-opener and our Draft Determinations? Please include your views on our assessment of the needs case, optioneering and draft allowances.

### Purpose of the re-opener mechanism

6.1 The New Large Load Connections Re-opener, in SpC 3.22, provides GDNs with the opportunity to recover efficient costs directly incurred as a result of specific network reinforcement required by new large load connection(s).

### Applications received and summary of our Draft Determinations

6.2 **Table GD6a** below highlights what re-opener applications we have received from each licensee and a summary of our Draft Determinations.

**Table GD6a: Applications Received and Summary of our Draft Determinations**

Sector Group	Network	Company Requested Number of Projects	Company Requested Forecast costs £m	Ofgem's DD Projects Approved*	Ofgem's DD Projects Not Approved	Ofgem's DD Cost adjustment £m	Ofgem's DD Allowances £m
Cadent	EoE	11	10.55	11	-	-3.06	7.49
Cadent	Lon	-	-	-	-	-	-
Cadent	NW	9	7.68	9	-	-2.24	5.44
Cadent	WM	-	-	-	-	-	-
Northern Gas Networks	NGN	-	-	-	-	-	-
Scotia Gas Network	Sc	-	-	-	-	-	-
Scotia Gas Network	So	-	-	-	-	-	-
Wales & West Utilities	WWU	13	10.75	13	-	-	10.75

\*We refer to draft determinations as 'Ofgem's DD'. Projects approved also include partial approval.

### Cost assessment

#### Cadent

6.3 Two of Cadent's four networks (Eastern and North West) incurred costs which exceeded the Materiality Threshold under this re-opener mechanism.

6.4 During the SQ process, Cadent updated project costs for two North West projects resulting in a cost reduction of £0.398m which has been reflected in our cost assessment (**Table GD6b**).

**Table GD6b: Summary of Cadent’s request under the New Large Load Connections Re-opener and Ofgem’s Draft Determinations (£m, 18/19 prices)**

<b>Cadent network</b>	<b>RIIO-GD2 Delivery Years</b>	<b>Company request</b>	<b>Ofgem adjustments</b>	<b>Ofgem assessed efficient costs</b>
Eastern	Years 1,2	7.87	-2.28	5.59
Eastern	Years 3,4,5	2.68	-0.78	1.90
North West	Years 1,2	5.92	-1.73	4.19
North West	Years 3,4,5	1.76	-0.51	1.25
<b>Total</b>		<b>18.23</b>	<b>-5.30</b>	<b><u>12.93</u></b>

6.5 We are proposing to adjust Cadent’s cost for the following:

- Overheads rate.

These adjustments are explained below.

Overheads rate

6.6 Cadent has applied a 40% overheads rate to their project costs which we consider is very high and has not been robustly justified by Cadent. In comparison, WWU has a significantly lower overhead rate for similar work. We therefore propose to reduce Cadent’s overheads to 11% to bring them in line with WWU’s median overheads. Our rationale on the suitability of an 11% overheads rate is also outlined in paragraph 6.9 below. We welcome Cadent to provide evidence and robust justification for their rates as part of their consultation response.

PCDs

6.7 We propose the following PCD to protect consumers against under-delivery:

- Total project costs - £12.93m

**WWU**

**Table GD6c: Summary of WWU’s request under the New Large Load Connections Re-opener and Ofgem’s Draft Determinations (£m, 18/19 prices)**

	<b>WWU submitted costs</b>	<b>Ofgem adjustments</b>	<b>Ofgem assessed efficient costs</b>
<b>Total</b>	<b>10.75</b>	<b>0.00</b>	<b><u>10.75</u></b>

- 6.8 We propose to make no adjustments to WWU’s costs.
- 6.9 During the SQ process, WWU confirmed their allocation of business overhead rates is not fixed but rather a % uplift on each cost item. This also varies between projects. We consider that this operation of specific overhead allocation per item demonstrates more robust rationale behind these numbers and not a blanket % rate applied to the total project cost. WWU’s median overheads rate across the submission is 11%, which we have used as a benchmark in our assessment given how overhead rates have been applied per project.

PCDs

- 6.10 We propose the following PCD to protect consumers against under-delivery:
- Total project costs - £10.75m.
- 6.11 WWU proposed a PCD and true up mechanism whereby costs of completed projects in RIIO-GD2 can be confirmed against the £10.75m requested funding. We do not propose introducing a new mechanism to true-up costs as there has been no material change in circumstances since RIIO-GD2 FDs to warrant the introduction of one.

## Appendices

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## Appendix 1 – Draft Directions

### Introductory note

Following our assessment of re-opener submissions, we have set out our Draft Determinations. Any decision, for example to add additional allowances for a project, will be implemented into the Licensees' licence via a direction. This Appendix provides a draft of the direction that will implement our Final Determination, as required by Special Conditions 3.20 and 3.22. Upon consultation, and proper consideration of consultation responses, we intend to confirm the direction at the same time as setting out our Final Determinations.

This draft direction is subject to responses to our Draft Determination. Any representations with respect to the Draft Determination or associated draft direction below must be made on or before 1 October 2024 to: Catherine Warrilow, Office of Gas and Electricity Markets, 10 S Colonnade, London, E14 4PU or by email to [catherine.warrilow@ofgem.gov.uk](mailto:catherine.warrilow@ofgem.gov.uk).

### Draft Direction

**To:**

**Cadent Gas Limited**

**Northern Gas Networks plc**

**Scotland Gas Networks plc**

**Southern Gas Networks plc**

**Wales and West Utilities Limited**

**Direction under Special Conditions 3.20 and 3.22 of the Gas Transporter Licence held by the licensees listed above to add allowances for Diversions and Loss of Development Claims and New Large Load Connections Re-openers.**

A1.1 Each of the licensees to whom this document is addressed is the holder of a licence granted or treated as granted under section 7 of the Gas Act 1986 ('the Act').

A1.2 Special Conditions 3.20 and 3.22 provides re-opener mechanisms by which the Licensee may seek additional funding during the RIIO-2 price control period for Diversions and Loss of Development Claims activities and New Large Loads respectively.



- A1.3 The Licensees applied under Special Conditions 3.20 In July 2024 and/or Special Conditions 3.22 in January 2024. The Authority publicly consulted on its Draft Determinations between 3 September 2024 and 1 October 2024. This document included a draft of this direction, as required by Part D of Special Conditions 3.20 and 3.22.
- A1.4 We received [x] responses and have placed all non-confidential responses on our website. Having considered those responses, we have decided to proceed with making this direction.
- A1.5 This direction is issued pursuant to Special Conditions 3.20 and 3.22 and sets out approved funding, adjustments to the value of relevant terms (DIVt and NLLRt) and the regulatory years to which that adjustment relates. These are set out in Annexes 1 and 2.
- A1.6 This direction will take effect immediately. This Direction constitutes notice stating the reasons for the decision for the purposes of section 38A of the Act.

Yours sincerely,

**[Name]**

**[Title]**

**For and on behalf of the Authority**

**Annex 1: SpC 3.20 Diversions and Loss of Development Claims Re-opener DIVt**

Approved amounts:

- Cadent [£49.61m]
- SGN [£11.81m]
- WWU [£41.84m]

<b>Distribution Network/Regulatory Year</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
EoE	3.47	1.45	3.00	4.52	5.75	18.19
Lon	0.73	0.13	0.35	0.61	2.61	4.43
NW	0.55	2.13	1.63	2.11	17.16	23.58
WM	0.35	0.47	0.82	0.73	1.04	3.41
Northern Gas Networks plc	0.00	0.00	0.00	0.00	0.00	0.00
Scotland Gas Networks plc	0.47	0.59	3.57	3.59	3.59	11.81
Southern Gas Networks plc	0.00	0.00	0.00	0.00	0.00	0.00
Wales and West Utilities plc	6.69	7.40	8.13	8.48	11.14	41.84

**Annex 2: SpC 3.22 New Large Load Connections Re-opener NLLRt**

Approved amounts:

- Cadent [£12.93m]
- WWU [£10.75m]

<b>Distribution Network/Regulatory Year</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
EoE	1.04	0.06	0.00	5.44	0.95	7.49
Lon	0.00	0.00	0.00	0.00	0.00	0.00
NW	0.04	1.14	2.82	0.82	0.62	5.44
WM	0.00	0.00	0.00	0.00	0.00	0.00
Northern Gas Networks plc	0.00	0.00	0.00	0.00	0.00	0.00
Scotland Gas Networks plc	0.00	0.00	0.00	0.00	0.00	0.00
Southern Gas Networks plc	0.00	0.00	0.00	0.00	0.00	0.00
Wales and West Utilities plc	1.18	1.59	3.05	2.63	2.30	10.75

## **Proposed Draft Direction - Correction to Cadent’s Non-Operational IT Capex Re-opener Direction**

On 8 July 2024, Cadent brought to our attention an error in our direction, which was included in our Non-Operational IT Capex Final Determinations and Directions published on 28 May 2024. The error pertained to incorrect allowances. Specifically, we used figures based on the wrong price for Project 5. Instead of the intended £0.818m (2018/19 prices), we mistakenly awarded £1.011 (2022/23 prices) for Project 5.

To correct the error, we propose the following direction that includes the corrected figures. In compliance with Special Condition 3.7.12 this will undergo a formal consultation process for 28 days. Once the consultation is closed, we will consider all responses and publish non-confidential responses we receive. Our final direction will take into account the responses received during this consultation.

### **Proposed direction under Special Condition 3.7.6 of the gas transporter licence ('the Licence') held by Cadent Gas Limited ('the Licensee') to correct allowances for Non-Operational IT Capex allocated in the direction dated 28 May 2024**

1. The Licensee is the holder of the Licence granted or treated as granted under section 7 of the Gas Act 1986 (the "Act") and is subject to the conditions contained in the Licence.
2. The Gas and Electricity Markets Authority ('the Authority')<sup>7</sup> issued a direction<sup>8</sup> on 28 May 2024 to amend Special Condition 3.7 Appendix 1: Total Non-operational IT Capex Re-opener allowance (£m). This direction contained an error in setting out the allowances in Appendix 1 of the Licence. We mistakenly entered the allowances for Cadent’s Interoperability project (project 5) in 2022/23 price base instead of 2018/19 price base. The correct base price was used for project 1.
3. The Authority gave notice on 30 August 2024, as required by Special Condition 3.7.12, of a proposed direction to correct the values in Special Condition 3.7 Appendix 1 to reflect the correct project 5 allowance from £1.01m to £0.818.

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<sup>7</sup> The terms "the Authority", "we" and "us" are used interchangeably in this document

<sup>8</sup> [Non-Operational IT Capex Re-opener Final Determinations \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/non-operational-it-capex-re-opener-final-determinations)

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4. The Authority received [x] confidential representation(s). Having considered these representations, [the Authority has decided to proceed with making this direction].
5. This document constitutes notice of the Authority’s reasons for the direction for the purposes of 38A of the Gas Act.
6. Pursuant to Special Condition 3.7.6, the Authority hereby directs the changes to Appendix 1 Special Condition 3.7 as set out in **Table 1**.

**Table 1: Total Non-operational IT Capex Re-opener allowance (£m)**

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>All years</b>
Re-opener	<del>0.268</del>	<del>0.961</del>	<del>0.6961</del>	<del>1.394</del>	<del>1.209</del>	<del>4.5281</del>
Allowance	<u>0.268</u>	<u>0.961</u>	<u>0.6804</u>	<u>1.302</u>	<u>1.123</u>	<u>4.3347</u>

7. This direction under Special Condition 3.7.6 will take effect immediately.

Yours sincerely,

**Nathan Macwhinnie**

**Deputy Director Price Control Operations**

**For and on behalf of the Authority**

## Appendix 2 – GDN Optioneering

### Diversions and Loss of Development Claims Re-opener

#### Cadent

A2.1 Cadent has outlined the following options within their re-opener application:

#### Accommodation of third party works

- i) Abandon the main
- ii) Removal of the offending structure
- iii) Diversion of an encroached main or pipeline
- iv) Do nothing.

#### Loss of development claims

- v) Pipeline diversion
- vi) Valuation and negotiation of compensation
- vii) Do nothing.

#### Adverse environmental factors

- viii) Do nothing
- ix) Do minimum
- x) Pipeline remediation (layered rip-rap, pre-filled rock bags, grout filled mattress, front matting)
- xi) Embankment remediation
- xii) Pipeline diversion.

A2.2 In all cases, the “do nothing” option was discounted as either:

- i) Encroachments significantly risk asset integrity and Cadent is obligated to act under PSR
- ii) Cadent is legally obligated by deeds to assess and address loss of development claims
- iii) Where adverse environmental factors have impacted the integrity and safety of the network, this must be addressed to avoid further impact which may lead to significant cost and disruption to consumers.

SGN

A2.3 SGN has implemented their “4R strategy” when determining the appropriate interventions, which aims to maximise asset life and minimise capital expenditure of interventions.

A2.4 Options were project specific, so varied between projects. For all projects, the “do nothing” option was declared infeasible as this option is not compatible with PSR obligations and the requirement to maintain pipelines safely and efficiently.

A2.5 SGN has highlighted the following options within their re-opener application:

	Cowdenhill	Meadowhill	Pitcairngreen	Pitcairngreen updated options*	Below 7bar washouts
1	Do nothing	Do nothing	Do nothing	Do nothing	Do nothing
2	High pressure pipeline diversion (preferred)	High pressure pipeline diversion (shorter route)	Reinstatement and reinforce (preferred)	Partial remediation (preferred)	Replace on failure
3	Remediate quarry	High pressure pipeline diversion (longer route, preferred)	Short route diversion	Full remediation	Repair on failure
4	-	-	Long route diversion	Relocate the pipeline	Pre-emptively replace
5	-	-	-		Pre-emptively repair (preferred)

\*As per EJP submitted 11 June 2024

## WWU

- A2.6 WWU has provided a very detailed optioneering assessment which is specific to each individual project.
- A2.7 In all cases, the “do nothing” option was discounted as the risk of failure and leakage risk was too high. If not addressed this could lead to significant cost and disruption to consumers.
- A2.8 WWU’s options include the following, or combinations of the following:
- i) Do nothing
  - ii) Abandon a pipeline section
  - iii) Diversion of pipelines, connecting to other existing areas of the network
  - iv) Negotiate with property owners or refuse to divert
  - v) Repair eroded areas of land or install new protection measures to support exposed pipelines.

## **MOBs Safety Re-opener**

- A2.9 At RIIO-GD2 business plan submission, Cadent proposed the following options:
- i) Minimal work
  - ii) Recover located faults over the RIIO-GD2 period
  - iii) Complete fault repair at an aspirational fault outstanding time
  - iv) Accelerated identification and repair, where inspections due in RIIO-GD3 are brought forwards to RIIO-GD2.
- A2.10 Beyond RIIO-GD2 FDs, Cadent reassessed and introduced an additional option (2b). This would build on option two above but would reassess specific fault resolutions to ensure compliance and resolution at most efficient cost.
- A2.11 All options were considered against the following criteria:
- i) Mitigation of safety risks and legislative compliance
  - ii) Deliverability
  - iii) Impact of the cost of the work on customers.

- A2.12 Cadent’s preferred option is option 2b, stating this allows them to remain legally and regulatory compliant and mitigate safety risks. This allows them to meet their commitment to fix 90% of faults identified through surveys with RIIO-GD2.

## **New Large Load Connections Re-opener**

### Cadent

- A2.13 Cadent highlighted that upon receipt of a new connection request, these are reviewed and a set of design options are considered to drive the most efficient and viable option. A risk assessment is also carried out to determine the level of failure.
- A2.14 Where a large load reinforcement and been identified, Cadent has evaluated the relevant positives and negatives to determine the optimum solution. Private land is avoided as much as possible due to land agreements which may delay works. New governors are considered as a last resort as these are typically on new land with existing agreements, so can be a costly option. Cadent also notes that the work is largely reactive.
- A2.15 Ten options were identified and considered for each connection project:
- i) Do not reinforce
  - ii) Change in connection point for new sites
  - iii) Pressure increases on clocked/fixed systems
  - iv) Low point install for optimised pressure increase
  - v) Contiguous mains lay
  - vi) Non-contiguous mains lay
  - vii) Replacement scheme adjustment
  - viii) Create an isolated system and increase pressures
  - ix) Governor/PRS rebuild
  - x) New governor/PRS installation.
- A2.16 The positives and negatives for each option are determined using the following methodology:
- i) Does the option deliver business outcomes?
  - ii) What change impact does the option cause?



- iii) How difficult is it to implement?
- iv) Time to deliver and realise benefits
- v) Overall impact of option.

#### WWU

- A2.17 Network Analysis (NA) modelling is used to analysis the options for each project, identifying lowest cost option for the required load.
- A2.18 The preferred engineering solution is tendered via WWU’s internal procurement processes to select the preferred delivery partner(s) from their Pipeline Services Construction Framework; this competitive process aims to achieve best value for consumers. Schemes are reviewed monthly to monitor cost, safety performance, commercials and delivery for each of the projects.
- A2.19 The following options are considered before selecting the preferred option:
  - i) Pressure elevation of network(s)
  - ii) Connect to other pressure tiers
  - iii) Linking areas of demand
  - iv) Interruption of eligible supply points
  - v) Pipe/above ground installations.

## Appendix 3 – Privacy notice on consultations

### Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

#### **1. The identity of the controller and contact details of our Data Protection Officer**

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

#### **2. Why we are collecting your personal data**

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

#### **3. Our legal basis for processing your personal data**

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

#### **4. With whom we will be sharing your personal data**

We will not share your personal data with third parties.

#### **5. For how long we will keep your personal data, or criteria used to determine the retention period.**

Your personal data will be held for six months after the project has closed.

#### **6. Your rights**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data

- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

**7. Your personal data will not be sent overseas.**

**8. Your personal data will not be used for any automated decision making.**

**9. Your personal data will be stored in a secure government IT system.**

**10. More information** For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".