Cadent
Your Gas Network

RIIO-3 Draft Determinations

Our response to Ofgem Overview Document

August 2025

Navigating our response

Cadent's response to Ofgem's RIIO-3 Draft Determinations is structured as follows.

1. Executive Summary
2. Summary of our response
3. Question responses to the Draft Determination documents
    a. Response to Overview Document
    b. Response to Gas Distribution Document
    c. Response to Cadent Document
    d. Response to Finance Document
    e. Response to other sector or company questions documents
4. Annexes

Ofgem Question Reference	Annex Reference	Annex Title
OVQ19	OVQ19-1	Independent Review of Ofgem's Draft Determination approach to Ongoing Efficiency
OVQ19	OVQ19-2	Review of GDNs IT&T and Data & Digitalisation Projects for GD3

About this document

This document covers our response to the questions in the Overview document of the Draft Determinations. To support our response, we have also provided annexes with key evidence and analysis such as expert consultant reports.

Table of Contents

OVQ1 We would welcome any views on the enduring role of the ISGs during RIIO-3 and for future price controls.

The ISGs play a very useful role in providing an independent source of insight and review of company's plans and delivery within the price control period.

We believe the most valuable role is in the ISGs developing a strategic understanding of the challenges facing the sector and the companies they are engaging with, and in reviewing the needs of customers and stakeholders and how these are being met by the company's plans and performance

The ISGs also can play a key role in helping the companies and Ofgem provide business plans and performance reporting that is accessible and meaningful for wider stakeholders, enabling them to properly compare performance and plans across the sectors.

We support the ISGs having an ongoing role through the price control period but suggest, to maximise their value, prescribed requirements are kept to a minimum to just ensure consistency in key elements. The groups then should be left to flexibly determine how they operate and work with the companies to encourage innovation and recognise different ways of working.

OVQ2 Do you agree with our proposed position on the Environmental Action Plan and Annual Environmental Report ODI-R for RIIO-3?

As required during RIIO-2, the Annual Environmental Reports provide a focused opportunity to share our Environmental Action Plan performance, and to report on our progress against strategy and environmental risk and impact mitigation. We agree with the continued requirement to report against the EAP, as such reports are also a key document for wider stakeholders and Sustainability (Environmental, Social and Governance) benchmarking evidence.

We welcome a review of the AER Environmental Reporting Guide to bring this in line with the expectations set out in the RIIO-3 business plan submissions for EAPs. Whilst the length of the guidance is sufficient to allow each report to have the flexibility for design and narrative, there are areas where this guidance can be strengthened, or the structure made clearer to these reports can be used in comparison. We support the option to standardise an intensity metric for all GDNs, to help with a network-by-network comparison, similar to the reporting requirements in Streamlined Energy and Carbon Regulations (SECR), i.e. pipe length and throughput.

There are several areas in the current RIIO-2 guidance that require further development and clarity, and we expect these to be agreed across all stakeholders in the Environmental Working Group after Final Determination, and before we have to start collating quantitative and qualitative information. Examples include:

- further guidance on the minimum requirements for Scope 3 emissions and embodied carbon calculation standards,
- Biodiversity Net Gain on-site or projects from legislation, and other reporting requirements and reflection of the longer-term timeframes reporting these would be under,
- clearer guidance in the 'Sustainable procurement, resource use and waste' section, and
- development of the metrics for sustainable procurement reporting and a review of the added value reporting of material use.

We would welcome looking to align certain topic areas with other ESG benchmarking requirements for external standardisation and comparability. We look forward to clarification on the expectation of partial and limited assurance on the data required across the sections and KPI in the AER.

We support the AER guidance in the separation of quantitative (KPI table) and qualitative (AER commentary), with this information in one document to ensure transparency and comparability. We would encourage early engagement in the development of the AER Guidance, after Final Determination, to reduce any duplication of reporting requirements elsewhere through the Regulatory Reporting Framework (i.e. RRP or Financial Account Reports) and plan for any additional requirements that go into writing such external reports

We will continue to collaborate with Ofgem on the preparation requirements for the Annual Environmental Reports and the degree of external engagement expected when writing the commentary. Through RIIO-2, we have proactively engaged with ecology consultancies and The Wildlife Trust on projects, reports and management standards as part of our environmental action plan, and we will continue to do, but do not see how their views will add context in this report and do not agree the need for additional statements in the AER.

Welcome further guidance and engagement in the Environment Working Groups when available on what will be assessed by Ofgem's RIIO-3 Team annually, as the DD states 'progress made in each area against EAP commitments', and how Ofgem proposed to feed this back, which we have not seen during RIIO-2.

OVQ3 Do you agree with our consultation position to create a new common mechanistic PCD for ZEV and associated infrastructure costs?

We support the provision of funding to support the decarbonisation of network fleets as an important part of reducing networks' business carbon footprint. We agree that, where accurate unit costs can be set, then a common cross-sector PCD is the best way to fund and manage this workload through RIIO-3. This is supported by the experience of RIIO-GD2 to date where some GDNs have delivered very few vehicles versus the Commercial Fleet PCD cap. Consumers would have been exposed to this risk if baseline funding was provided.

If Ofgem are unable to set a PCD with sufficient flexibility and confidence in unit costs, or this would introduce too much regulatory burden, then the uncertainty mechanism framework could be used to provide the funding needed.

Considerations in implementing a common PCD

We have led the Gas Distribution sector on fleet decarbonisation during RIIO-GD2. This can be seen by our achievement of already converting >50% of our first responder fleet to electric vehicles and providing 335 of our engineers with at-home charging facilities for their vehicles. We are, therefore, well placed to understand the opportunities and challenges in converting a commercial fleet to zero-emission vehicles (ZEV).

In order to arrive at a suitable design, it is important to recognise the specific needs of GDNs' vehicle fleets and the current lack of commercially available ZEV products to meet our specifications. This uncertainty around what will emerge as the leading products to meet GDNs' requirements means that the PCD must be designed with inbuilt flexibility to respond to changing market conditions. Converting to ZEVs that do not fully meet GDNs' requirements would come at the detriment of our ability to effectively comply with statutory obligations and could ultimately put consumers' safety at risk.

The table below summarises the constraints we face in rolling out ZEVs:

Constraint area	Detail
Vehicle suitability	• Payload constraints: currently the EV offering of 4.2 tonnes to replace 3.5 tonne ICE commercial vehicles have a much lower payload due to battery weight e.g. Ford E Transit currently has maximum payload of 1,758kg whereas its diesel equivalent has up to 2,447kg. • With our current tooling and van stocking we would only be able to make this weight reduction with significant changes in operation. • EV vehicles cannot currently run a suitable PTO system due to different drive train set up, meaning Cadent are unable to produce compressed air for tooling as required. • Battery degradation: engineers are reporting that on full charge starting mileage is 150-180 miles (lower during winter) compared to 220 miles when they originally bought the van.
Maintenance and repair supply constraints	• Delays when vehicles need servicing e.g. Vauxhall have limited ramp space at their garages due to a large volume of these vehicles being utilised by 3 large corporate companies (Open Reach, British Gas and Cadent). • Vehicle off Road (VOR) times for an EV are an average of 40 days, in comparison to the rest of our fleet which has an average of 0.67 days. • Vehicles needing repair from accident damage have been left waiting for up to as long as 4 months due to parts not being readily available.
Geographical diversity and infrastructure	• Charging infrastructure is more prevalent in central city locations where daily mileage is not so high, so frequency of charging is low. • In more rural areas charging infrastructure is less prevalent and the mileage that operatives need to cover is also higher. • Engineers in these areas therefore face increased risks of not being able to make jobs, meaning non-ZEV vehicles currently represent a better solution.

These constraints and the lack of commercially available solutions that meet our needs mean we are unable to provide granular data as requested by Ofgem at the RIIO-GD3 Environment Working Group on 29th July. For example, we are unable to provide details of the ZEV vehicles we will buy beyond Year 1 of RIIO-3. Given the lack of certainty around products, it is also hard to project unit costs into RIIO-3 with any certainty. The data we are able to provide we will submit in Ofgem's Excel data template in conjunction with this response to the Draft Determination.

We are keen to work with Ofgem to mitigate these risks and uncertainties as proactively as possible. We would be open to trialling new vehicles as they come to market to assess if they can accommodate our range and weight carry requirements.

Regarding the design of the RIIO-3 ZEV PCD, we believe it should be flexible and adaptable to market developments. It could include scope for an annual review by vehicle type as innovation and product development could proceed at different rates in different product categories. Under this design GDNs could submit detailed rollout plans for the year ahead and submit cost data upon which Ofgem could arrive at an assessment of efficient costs.

This would avoid the situation where Ofgem relied on one GDN's unit cost data (SGN) in RIIO-GD2, even though they did not proceed with changing their vehicles and hence under-delivered against targets. We would be happy to work with Ofgem to flesh out the design of an annual review mechanism in the run up to Final Determinations.

Potential use of the uncertainty mechanism framework

Given the uncertainty described above, if it is not possible to design a sufficiently flexible PCD that provides confidence in unit costs, then an alternative approach could be to utilise the RIIO uncertainty mechanism framework in conjunction with a PCD at Final Determinations. This would protect customers whilst still enabling networks to decarbonise their fleets and reduce their business carbon footprints.

For example, if Ofgem only received sufficient evidence to set accurate unit costs for some categories of vehicles they could:

- Set the PCD with unit costs against the categories they can and leave 'placeholders' for other categories to be added later in the period when evidence is available.
- Provide a use-it-or-lose-it (UIOLI) allowance for networks, potentially included as part of the scope of NZARD, to begin procurement of vehicles in other categories (should suitable vehicles become available).
- Include a re-opener mechanism, potentially included in the scope of the NZASP, that could be used to amend the ZEV PCD, and associated allowances, to add in unit costs for new categories should they become available, and add in additional caps/targets for networks should they be able to demonstrate an additional needs case.
- The data obtained through the UIOLI allowances would provide the evidence to be used in a re-opener application which could be used to add categories into the PCD.

OVQ4 Do you agree with our proposed approach to measuring Baseline Network Risk Outputs and our application of the NARM mechanism?

We agree with the information stated in section 4.34.

OVQ5 Do you agree with our proposed approaches to calculating the funding adjustments and to the application of penalties?

We have reviewed the recently published NARM Handbook v4, and despite some progress in articulating the framework for assessing network risk and delivery, we do not agree that the proposals are sufficiently developed and clear so that they can be meaningfully assessed. There remains substantial work to clarify and make sense of what is being proposed. Critically, the process for assessing delivery and applying funding adjustments must be clear and transparent from the outset of the price control, not during RIIO-2 closeout. Confirming key elements of the approach only after the price control has commenced undermines the principles of transparency, consistency, and accountability that Ofgem is obligated to uphold under its better regulation duties. In its current form, the Handbook does not provide the clarity or confidence required for stakeholders to engage constructively or plan effectively.

1. Interpretation Gaps and Unresolved Issues

The NARM-CI-statcon-issues log, published alongside the consultation decision, highlights several areas of interpretation that remain unresolved. These issues have the potential to materially impact allowances and delivery assessments if not addressed with sufficient detail. The presence of unresolved interpretation makes it difficult for us to fully assess and comment on Ofgem's proposals, and difficult for this consultation process to be effective in achieving its aims. This undermines the principles of transparency and accountability and risks inconsistent application. Notably:

- The methodology for calculating CIOD/CIUD at the asset class level (Issue 10) has not been previously consulted on or discussed in working groups, raising concerns around proportionality and targeted regulation.
- The worked examples provided in the Handbook continue to present ambiguity in the application of CIOD/CIUD and delivery thresholds (Issues 13 and 17), despite these concerns being raised previously by the network companies.

2. Independent Justification Assessment – Lack of Guidance

Section 7.12(h) of the Handbook outlines that projects falling outside the deadband will be subject to an independent justification assessment. However, there is currently no clear guidance on:

- The criteria and process for conducting these assessments.
- The level of evidence required from GDNs.
- How these assessments will be applied consistently across networks.

This lack of clarity introduces significant uncertainty into the delivery evaluation process. This assessment must be defined within the NARM Handbook.

3. Timing of CIO/UD Assessment Criteria

The Handbook and issues log indicates that detailed assessment criteria and reporting requirements for CIO/UD will be provided at RIIO-2 closeout, scheduled for July 2026. This timeline is problematic, as RIIO-3 will have already commenced, meaning GDNs would be agreeing to an untested approach to funding adjustments or penalties without full visibility of the criteria. This is not workable, as we would be asked to accept a price control without clarity on what our obligations are and how performance would be assessed. Such an approach undermines the principles of proportionality, accountability, and transparency, and places networks in an untenable position when planning and delivering against regulatory expectations.

4. Need for Structured Engagement

While Section 4.46 of the RIIO-3 Draft Determinations Overview Document references continued engagement with network companies, at time of writing there is currently no formal structure in place to facilitate this. To uphold the principles of transparency, consistency, and targeted engagement, we strongly recommend:

- Reinstating technical working groups focused on NARM delivery and closeout methodology.

- Establishing a clear and time-bound roadmap for resolving interpretation issues ahead of final determinations.

Conclusion
We remain committed to working collaboratively with Ofgem to support the successful implementation of the NARM framework. However, to uphold the principles of better regulation, the issues outlined above must be addressed through structured engagement and timely clarification. The current level of ambiguity surrounding the NARM framework is significant and is not clear enough to enable an effective consultation on the proposals. Before Final Determinations, further engagement and consultation is necessary to ensure that a proper process has been followed and to establish a fair, transparent, and consistent approach to NARM for RIIO-3, particularly in light of the potentially significant amounts of funding involved.

Addressing these concerns will enable us to understand what is being proposed in the Draft Determination and comment on the acceptability of the proposals, provide informed feedback, and ensure a fair, consistent, and proportionate approach across the sector.

We welcome the opportunity to discuss these points further and look forward to your response.

OVQ6 Do you agree with our proposed approaches to improving the NARM framework?

The proposals as currently presented are incomplete, making it impossible to assess their practicality or determine whether they meet the intended objectives. Urgent work is required to ensure that the proposals are properly assessed and understood ahead of Final Determinations. While we support a number of the suggested improvements—particularly the move towards common methodologies, consistency across models and common engineering condition grades—clarity is necessary on how other changes will be implemented in practice. A transparent, consistent, and proportionate approach is essential to ensure the proposals are targeted, accountable, and deliverable.

1. Stakeholder Engagement on IGP Requirements

The SSMD (section 6.103) refers to the formation of additional working groups to support development of the IGP. However, these groups have not yet been convened, limiting opportunities for meaningful stakeholder engagement. This lack of targeted consultation risks overlooking operational insights from the sector, potentially leading to proposals that are misaligned with practical implementation realities. As a result, we are currently unable to confirm whether the implementation of IGPs is practical or achievable based on the information provided.

2. Clarity on IGP Design and Implementation

Although the IGP is intended to align with the electricity distribution sector, key elements such as templates, granularity definitions, and penalty mechanisms remain undefined. This lack of transparency and detail makes it impossible to assess the proportionality and fairness of the proposals.

3. Audit Requirements and Additional Reporting Measures

The draft determination does not link back to multiple elements outlined in the SSMD that affect the response to this question. Section 6.85 of the SSMD outlines new improvement areas outside the existing framework, including expansion of the required reporting framework. The SSMD (section 6.102) also states the introduction of an annual audit requirement but does not specify the level of information required or how the process will operate in practice. GDNs have consistently been vocal about avoiding unnecessary increases in regulatory burden which Ofgem have acknowledged and accepted. The draft determination overview document only references enhancing audit processes (section 4.51) but does not speak to how this works in practice. This creates uncertainty and may lead to inconsistent application across the sector. Greater clarity is needed to ensure the audit process is both effective, proportionate and implemented in a consistent way. In addition, GDNs need clarity on how introduction of these additional elements reduces regulatory reporting burden.

4. Cost Considerations and Business Plan Alignment

Section 6.105 of the SSMD notes that additional costs associated with these changes will be considered during business plan reviews. However, this is not addressed in the draft determination. Transparency on how these costs are being evaluated is essential to ensure a fair and consistent approach across the sector. Could Ofgem explain how they have considered this within the business plan review?

To support a more transparent and accountable process, and to ensure the proposals are proportionate and targeted, it is necessary that Ofgem:

- Convene the working groups as outlined in section 6.103 of the SSMD to ensure stakeholder input is fully incorporated.
- Provide detailed guidance on IGP templates, granularity, penalties, audit requirements, and cost considerations to support consistent and practical implementation.

OVQ7 Do you agree with our proposal for the physical security PCD?

No response.

OVQ8 Do you agree with our approach taken to review of the Climate Resilience strategies?

We broadly welcome Ofgem's positive reception of our Climate Resilience Strategy. Our strategy aims to mature capabilities from 'resilient by response' to 'resilient by design' over RIIO-3 and beyond.

We support the introduction of a cross-sectoral Resilience re-opener for RIIO-3; however, the scope as currently drafted is insufficient to manage the potential investments required to ensure climate resilience. We had anticipated, and would expect, that this re-opener should be linked to, and informed by, the results of climate stress testing on our networks. For further details on the proposed scope of the Resilience re-opener please see our response to OVQ17.

We are supportive of the intent to undertake stress testing of our networks in readiness for the re-opener window. A key dependency for our strategy, and specifically stress testing, is the necessary investment in IT systems, data, and tools. We note Ofgem's challenge directed at our "Unified Asset Investment Portfolio Management" (INV-50) proposal which can be found within our IT Data and Digitisation Strategy. A major part of this investment case is to build climate resilience risk modelling capabilities to enable stress testing of our network. We are committed to providing the supporting justification to ensure that these capabilities can be made to support Cadent and Ofgem's climate resilience ambitions.

We acknowledge and support the direction Ofgem is taking in developing associated guidance for climate resilience activities and reporting. We recognise this is important in providing consistency to facilitate the necessary stress testing and high-risk climate adaptations workload forecasts ahead of the re-opener window. For this guidance to be most effective, it must be balanced and reflect the entire energy sector including the unique challenges and interdependencies of gas networks. We are committed to working collaboratively with Ofgem and the wider energy sector to ensure the successful development and implementation of the guidance.

OVQ9 Do you agree with our views on the Workforce Resilience Strategies?

This answer covers both OVQ09 and OVQ10.

Risks we are managing with the workforce and supply-chain strategies

We welcome the positive support in the DD for our workforce and supply chain resilience strategies.

In line with the strategies, we are keen to reduce the future uncertainty of the gas networks so as to continue to both attract and retain the required talent. This is critical to ensuring we are able to manage increasing employment costs and continuing to deliver a high quality of service to our customers.

To enable our workforce and supply chain strategies, it will be important that the obligations are sufficiently funded based on a robust cost assessment which properly acknowledges the environments and regions we operate in. This is particularly important in the London region where the labour market is constrained and highly competitive.

In this context, we would note the potential impact of the messages sent by proposing to further accelerate depreciation. These may impact on the attractiveness the sector. These messages and constraining future investment levels make it harder to attract and retain talent and put further pressure on cost management when competing for resources in other sectors such as water and electricity.

In addition, the skills and competencies required to work not only on the gas network as it is today, but to support the transition for future energy are much higher than is needed across the other sectors – for example, work on biomethane and hydrogen have never been done before. In order to do this safely and efficiently, investment is required to ensure we can upskill our existing workforce to meet the changing demands - for example, the differing requirements of safety, gas quality and system operation as well as the changing commercial, regulatory and market frameworks that will be needed. We note that the DD assumes that this will be accounted for in the Government's Hydrogen Transportation Business Model and it will be important that this does not fall between the two regulatory regimes.

Pensions funding policy

In line with our response to Ofgem's Call for Input in April 2024, we would be supportive of a review of Ofgem's pension funding policy in light of the changes expected under the Pension Scheme's Bill.

OVQ10 Do you agree with our views on the Supply Chain Resilience Strategies?

Please see response to OVQ9.

OVQ11 Do you agree with the equal weightings applied per criteria/rating for the 'Clarity scorecard' and the 'Business Plan Commitments scorecard' for the Stage C assessment?

We support the use of an equal weighting in the Clarity scorecard.

OVQ12 Do you agree with the weightings applied per outcome for each sector for use in the Stage C - Business Plan commitments assessment?

We support the weightings that have been applied to Gas Distribution.

OVQ13 Do you agree with the use of a default materiality threshold and its level?

We support the use of a default materiality threshold; however, careful consideration is needed on where it is applied to ensure the appropriate balance of financial risk and regulatory burden.

We agree with the level of materiality threshold shown in table 8 of the Draft Determination Overview document, recognising the figures shown will be updated in alignment with updates to the annual average ex-ante base revenue figures at Final Determination.

However, the default materiality threshold should only apply once per re-opener mechanism per network during the RIIO-3 period.

Targeted use of the default materiality threshold

The use of a default materiality threshold creates risk for networks, with costs needing to exceed a significant level across a wide number of areas. If a network only reaches half of the materiality threshold in a handful of re-opener areas, without being able to apply for revenue adjustment, it will create a significant cost challenge.

As such, very careful consideration is needed on where the default materiality threshold is applied. Where the evidence supports that an alternative materiality threshold, to that set out in Draft Determinations, should be used we provide details of our assessment and alternative proposals in our responses to the specific draft determinations consultation questions. However, please see a summary of our responses in the table below (where our proposed changes are shown in red):

Re-opener Name	DD Question Reference	Materiality Threshold		
		None	Bespoke	Default
Net Zero Re-opener	n/a			✓
Whole Systems Co-ordinated Adjustment Mechanism (CAM) Re-opener	OVQ14	✓		
Net Zero Pre-Construction and Small Projects (NZASP) Re-opener	OVQ16		£>1m	
Resilience Re-opener	OVQ17	✓		
Cyber Resilience Re-opener	OVQ35	✓		
Digitalisation Re-opener	OVQ38	✓		
Heat Policy Re-opener	GDQ21			✓
HSE Policy Re-opener	GDQ22			✓
Diversions and Loss of Development Claims Re-opener	GDQ24			✓
New Large Load Connections Re-opener	GDQ26			✓
Specified Streetworks Costs Re-opener	GDQ27			✓
London Subways and Tunnels Re-opener	CADQ12			✓

One time only application of the default materiality threshold per network per re-opener

We would also propose that the licence drafting for all relevant re-openers (other than the Net Zero re-opener) be updated to provide clarity that the default materiality threshold would only need to be exceeded once over the course of the price control by each network. For example, if a network made an application in excess of the default materiality threshold and had their allowances adjusted following a 2028 re-opener window, but then incurred further qualifying costs in this area they should not be subject to the default materiality threshold again for any further applications (where two windows are provided, a close out trigger is included, or an Authority trigger is available).

OVQ14 Do you agree with our proposed amendments to the CAM for RIIO-3?

Whilst the existence of this Coordinated Adjustment Mechanism does provide a practical implementation route for mutually beneficial inter-company transfers, we do not think the Mechanism is ever likely to be used to any significant extent without an effective financial incentive for networks. Cadent proposed such a collaboration incentive earlier in the RIIO-3 process, which would enable the networks to deploy the necessary resources to consider, develop and engage on proposals in the knowledge that many may not reach maturity.

Networks have huge challenges in front of them in terms of workload and efficiency, and without further financial support, we do not believe multiple networks will be able to consistently prioritise time and resources to bring forward proposals that will have their success dictated by other parties, outside of one network's control.

We consider the use of financial incentives to drive coordination and cooperation at the pace of the fastest, will be of increasing importance as networks respond to efficiency challenges and deploy their limited resources where there is greater certainty of a positive outcome.

OVQ15 Do you agree with our proposed design of the NZARD UIOLI?

We broadly support the proposed design of the NZARD UIOLI but question the scope and the associated allowances relating to vital net zero transitional costs that are incremental, have a high degree of confidence, and which will be enduring business as usual activities. In our Business Plan we proposed such costs relating to:

- Engineering policy development and assurance,
- Network modelling,
- Market Framework development,
- Customer and stakeholder support;

These should be included within baseline funding, due to their enduring nature and the need to plan and resource accordingly. We also noted that should Ofgem reject the baseline funding, then the scope of the NZARD UIOLI should be amended to confirm their inclusion and the allowances appropriately adjusted.

In Ofgem's response to our EAP in the Cadent Annex (2.38-2.40), our net zero transitional cost inclusion was dismissed on the grounds that RESP accountabilities sat with the NESO, and that support and data provision to the RESP/NESO was not incremental. We do not agree with this analysis, as only a minor subset of the requested resourcing costs were RESP related, and we believe it is reasonable and appropriate to factor in a step change in customer and stakeholder engagement going forward. A considerable level of funding has been provided for customer and stakeholder engagement for the DNOs, similarly all Cadent's customers and stakeholders will be impacted by the net zero transition and will require increasing levels of support and guidance. We do not believe it is putting customers at the heart of the energy transition if no incremental baseline funding is provided to support gas customers, who will need and expect increasingly enhanced levels of interaction. This engagement will all need to be informed and guided by modelling and analysis and will need to be reflected and communicated within the emerging technical and regulatory framework.

We note as well that a large element of the cost relates to enabling the new engineering policy and market framework developments that we know will be required as the gas network transitions away from fossil gas. We note as well that Government has stated its intent to conclude its review of the future of the gas system before the start of RIIO-4, which will require considerable input from the gas networks.

We need to build the capacity and expertise now to enable these critical roles to be effectively resourced. Without such funding in place, this gap in net zero enabling capability will create a barrier to the transition to net zero.

We do welcome the growing recognition of these issues and that Ofgem have confirmed in a recent Working Group discussion (CSWG – 29 July 2025) that they will now consider baseline funding, including where this would protect critical tasks from the consequences of exhausted UIOLI allowances.

We have therefore revisited our net zero transitional costs, discussed in more detailed in our response to Cadent Q6; and transferred £6.591m of costs across our networks, from our baseline funding, where we believe these have a greater degree of uncertainty. These more uncertain incremental costs should therefore be funded through the NZARD UIOLI mechanism. Given this movement, we would expect the size of the NZARD UIOLI to be adjusted upwards by this amount, and the detail of this is set out in the table below. Cadent's total NZARD UIOLI allowance should therefore be increased from £24.7m to £31.3m.[1] However, should Ofgem determine that these costs are recoverable but not for baseline funding, then we would call on Cadent's NZARD UIOLI allowance to be increased accordingly. We continue to reiterate the view that these costs are long term (not one-off), and if not

[1] We have provided an updated view of these costs and their allocation in the NZARD UIOLI also in DDQ67 which we have submitted to Ofgem alongside this response for incorporation into its Final Determination.

baseline funded in RIIO-3, will inevitably need to become baseline funded in a future price control period.

The NZARD UIOLI mechanism has proved itself to be a highly valuable mechanism to support vital net zero and re-opener related works. With the scope changing to include critical activities, the consequences are greater should the fund become exhausted before the end of the RIIO-3 period. We therefore request the Licence drafting includes a provision giving Ofgem the powers to top-up the NZARD UIOLI mid-period. There are many ways this could be achieved, and we can develop the drafting within the appropriate Working Groups. One option we do believe may have merit, would be specification of a network NZARD re-opener window after a network has submitted their annual regulatory submission showing that the NZARD funds are expected to be fully deployed before 31 April 2030.

OVQ16 Do you agree with our proposed design of the NZASP re-opener?

We broadly support the retention of the NZASP re-opener as proposed, but do not agree that RESP coordination activities are best dealt with under this mechanism. Effective RESP coordination and delivery at pace does not fit with a re-opener process that is uncertain in outcome and will take at least 12 months from initial identification through to final direction. Activities critical to the RESP's success should be funded more flexibly, and we'd therefore argue that such costs are included in baseline funding or the NZARD UIOLI, with maximum values adjusted accordingly. We accept that larger capital projects emerging from the RESP process should be dealt with through this re-opener, but suggest a minimum threshold is applied greater than the proposed £1m.

Another design weakness we have aired in the Working Group is that funding for critical activities emerging later in the RIIO-3 period, may not be available if the UIOLI allowance has been exhausted. To protect against such an eventuality, Ofgem noted the option to propose additional baseline costs, however we believe there is merit in providing further flexibility. In particular, we think it would be prudent to design in flexibility given the uncertainty of some costs. For example, RESP costs are included in the NZASP, and the current RESP Licence proposals are to apply a best endeavours duty on the Distribution Networks to provide yet to be defined support. Appropriate flexibility would protect against the delivery and quality of RESP activities which would be impacted by limited funding.

Our proposals for flexibility would be to design a re-opener window that opened for a one-off re-opener, when a critical UIOLI allowance has been committed to more than 75% of the total allowance, A network could then set out its case to increase the UIOLI.

When we raised these concerns in the Working Group with Ofgem (CSWG 29 July), they were sympathetic and agreed to consider proposals for baseline funding to mitigate these risks. We have therefore revisited our net zero transitional costs to consider baseline and UIOLI funding. This is set out in our response to CADQ6.

OVQ17 Do you agree with our design proposal for the resilience re-opener?

We support the introduction of a cross-sectoral resilience re-opener for RIIO-3, which aligns with our intent to secure funding for unanticipated resilience-related activities. This broader scope will allow us to ensure that our response to evolving risks and resilience requirements is effective while remaining flexible.

However, we do not fully support the scope of the re-opener in relation to climate resilience and propose that it is broadened to include investment requirements identified by our climate risk modelling during RIIO-3 (i.e. not triggered by a third party). We would propose to utilise the re-opener windows identified for CNI physical security should an application be necessary.

We also do not support the use of a materiality threshold for CNI physical security works. This should be removed so that the approach is aligned with other mechanisms intended to enable the mitigation of threats relating to national security (i.e. cyber resilience).

Scope of the Resilience re-opener in relation to climate resilience

As set out in our Climate Resilience strategy submitted with our RIIO-3 Business Plan, we will change from being 'resilient by response' to become more proactive and 'resilient by design' to disruptive climate challenges. The underlying resilience risk (climate change) is well-known, but the most economical way for us to respond to it is not yet understood.

To enable this, our baseline investment is intended to fund climate risk modelling, which will identify the assets which are most at risk, and the work required to bring them up to the necessary resilience standards. We are planning that this will be completed in 2028, at which point we will have a more certain understanding of the precise action we need to take.

Where interventions need to be undertaken during the remainder of the RIIO-3 price control, we will need a suitable mechanism to enable this. As such, the Resilience re-opener scope should be amended to allow us to trigger the use of this mechanism to request additional funding – as the requirement for investment in this scenario will not necessarily be driven by new third-party recommendations etc.

Without this amendment to the design of this re-opener it introduces risk that we will be under-funded for interventions which are above and beyond base plan.

We would recommend that the windows proposed for CNI physical security (April 2028 & 2030) also be utilised for accommodating the climate resilience submissions detailed above, where they are necessary.

Removing the materiality threshold in relation to CNI physical security works

We do not agree that a materiality threshold should apply to CNI physical security. It is already accepted that Cyber resilience OT and IT activities are carried out to reduce and mitigate threats relating to national security, and that it therefore would not be appropriate that projects are required to meet a materiality threshold. CNI physical security work fulfils the same purpose and therefore should be treated the same.

OVQ18 Do you agree with our proposed approach to RPEs?

We do not support the DD's proposed approach to Real Price Effects (RPEs). In particular: we consider that the RPE index should include a plant & equipment RPE, we do not agree that it is right to include an RPE index for timber, and we consider there are good reasons to use forecast indices (rather than long term average growth assumptions) when these are available.

Area	Changes required
Materiality threshold applied	The 10% threshold is arbitrary and lacks regulatory justification. Excluding plant and equipment RPEs would fail to capture their significant economic impact on gas networks. It is practically easy to include plant and equipment RPEs given that similar RPEs are recognised for NGET and SHET.
Indices selection and weightings	The selection of material indices should correspond to actual expenditure patterns, with appropriate weighting that reflects the distribution of costs incurred. Relying on an overly broad range of indices, or applying equal weighting regardless of relevance, fails to capture the true economic impact and risks distorting the representation of material costs.
Basis of forecast RPEs	Rather than reverting to long-term averages, the most up-to-date forecasts should be utilised where possible.

Materiality Threshold

The Draft Determination's propose to exclude Real Price Effects (RPEs) from Plant and Equipment costs in RIIO-3 on the basis that these costs do not pass the materiality threshold. We disagree.

In determining which cost categories to include in the RPE index, Ofgem applies two materiality thresholds:

- A primary threshold, which is passed if the cost category constitutes at least 10% of totex; and
- A secondary threshold, which is passed when a cost category accounts for at least 5% of totex (but less than 10% of totex) if the real price movement of that cost category is expected to impact totex by at least 0.5%.

Based on the submissions made by all GDNs, we understand that Ofgem has calculated that Plan and Equipment costs will amount to around 9.6% of totex, which is below the 10% primary threshold. However, we do not consider this is a robust reason for excluding Plant and Equipment costs from the index for three reasons:

- First, we reiterate our position set out in our business plan that Ofgem's 10% threshold is arbitrary and lacks regulatory precedent. This threshold was removed in the water sector's PR19 framework and has similarly been discarded by the Utility Regulator in Northern Ireland.
- Second, the proportion of totex accounted for by Plant and Equipment is only marginally below 10% - the difference is in the rounding, and almost certainly within the margins of reasonable forecasting error.
- Third, during RIIO-2, Cadent has invested heavily in new, more efficient techniques which often rely on a greater proportion of Plant and Equipment expenditure. As a consequence, the proportion of our totex that is accounted for by Plant and Equipment is 14%, which is notably above both the industry average and the 10% primary threshold. By excluding Plant and Equipment from the index, Cadent will be exposed to more risk as a consequence of our efforts to transform our business - this is counterintuitive.

However, even if Ofgem continues to consider the primary threshold is not met for Plant and Equipment, we believe the second threshold is met.

We have estimated the impact of real price movements in the Plant and Equipment cost category by:

1. calculating the difference between the RPE for the Plants and Equipment category[2] and the CPIH for the years covering RIIO-GD3[3] - which is 2% per annum;
2. applying this difference to our annualised breakdown of totex spend and weighting it by the assumed 9.6% share of totex of the Plants and Equipment category for GDNs.

Based on this, our analysis shows that real price movements would impact totex by 0.55%.

The Draft Determination notes that the inclusion of Plant and Machinery in the RPE index would add complexity. However, we do not consider this to be the case given Plant and Equipment is already included within the NGT and SHET RPE indices - it would be possible to use the same source data for the GDNs. We would also observe that the proposal to expand the materials RPE from 3 to 10 indices arguably introduces greater complexity than the inclusion of Plant and Equipment.

In summary, we consider Ofgem is wrong to exclude Plant and Equipment on the basis of the primary threshold but, in any event, Plant and Equipment should be included as the cost category passes the secondary threshold.

Indices Selection and Weighting

We agree with maintaining the approach to labour indices in line with RIIO-2.

We support simplicity so we do not agree with the introduction of seven new material indices with equal weightings.

We have two key concerns:

1. **Alignment with Actual Spend**: It is important that the weighting attached to individual indices are reflective of actual expenditure. While Ofgem has indicated a lack of sufficient data to assign differentiated weights across the various material indices, comprehensive information is in fact available for mains replacement activities—which constitute the largest proportion of material spend. These details, such as the breakdown of plastic, steel, and iron costs, are included within the repex data tables 6.00. To further enhance transparency, we set out below our material spend for 2024/25:

   [redacted]

2. **Relevance of Specific Indices**: Indices should be selected based on their relevance to GDNs' expenditure. Timber is not a material that aligns closely with our cost structure and should not be included in the indices which make up the Materials RPE. We assume that timber purchases are relevant to the electricity DNOs as they purchase poles to support low voltage cables and pole-mounted transformers. However, we purchase a negligible amount of timber and our RPE index should not include any allowance for timber purchases. Including timber in our RPE index would be an error.

[2] The average of indices 70/2, C28, 4/CE/04, and 90/2
[3] We maintained the same long-term growth assumption for 2031 as was applied to 2027-2030.

Long term average growth assumptions

Having inspected the RPE workboard spreadsheet provided by Ofgem, it appears that Ofgem might be intending to use forecast for some, but not all of the RPE indices. As a matter of principle, we consider forecast information should be used whenever this is available rather than assumptions about long-term average growth.

As stated in our Business Plan submission, the latest forecasts should be applied to all elements of RPEs, rather than labour alone, wherever possible. This will help reduce the high level of volatility experienced during RIIO-2.

We understand the challenges around obtaining credible forecasts, however, forecast data for a number of the indices are available, so consideration should be given to whether those forecasts would be appropriate given the consistency with actual outturn data. In our business plan, we detailed which forecasts were available for the indices we proposed.

OVQ19 Do you agree with our proposed approach to ongoing efficiency?

We do not agree with Ofgem's proposed approach to ongoing efficiency (OE) and the specific challenge set of 1% per annum for RIIO-GD3. We consider that both the approach to selecting this target and the figure itself represent material errors in Ofgem's cost assessment methodology. By contrast, the OE target proposed within our Business Plan of 0.5% is based on a superior method and firmly justified in the underlying evidence. We discuss this in further detail below (**Section A**).

To inform our response we, together with other gas networks, have commissioned Economic Insight (EI) to provide an independent review of the approach taken to Ongoing efficiency in the Draft Determination.[4] The EI Report, as we refer to it hereafter, is included as Annex – OvQ19-1 to our consultation response. This should be read alongside our response to this question.

Ofgem's Draft Determination also further errs in applying its OE assumption one year earlier than it should. Below (**Section B**) we set out why this and how this can be remedied for Final Determination.

Further, the Draft Determination notes that Ofgem is still considering whether to apply OE, in certain circumstances, to costs subject to Uncertainty Mechanisms (UMs). We comment on both of these aspects of Ofgem's approach below (**Section C**). Specifically on UMs, we see no reason to divert from the overall approach Ofgem has employed at RIIO-GD2, only applying OE to volume drivers set at the outset of the price control, and not re-openers, pass-through costs or indexation UMs.

Section A

Ofgem's Draft Determination approach to OE makes a material error through failing to properly assess the available evidence, which points clearly to an assumption significantly below 1% per annum

Evidence presented by gas networks and electricity transmission networks in their business plans suggested an OE assumption significantly below 1% per annum would be sufficiently stretching but perceived to be achievable based on historic efficiency gains, for network companies in RIIO-GD3. Submitted proposals from the network companies range from 0.2%-0.7% per annum, and Cadent's own submitted proposal is 0.5% per annum. This was supported by the EI report which concluded that OE at RIIO-3 "will most plausibly be in the range 0.2% to 0.8% (the mid-point being 0.5%)". In response, Ofgem's Draft Determination maintains the level of ongoing efficiency challenge set at RIIO-GD2 (post-CMA appeals) and RIIO-ED2, at 1% per annum.

The setting of the OE challenge in Ofgem's Draft Determination is wrong, and contains errors in both the evidence used to justify the OE assumption, and the logic and rationale used to interpret the available evidence, as a result of:

1. Ofgem relying on the outcome of regulatory precedent to support its prior expectation of a 1% target assumption, and not being led by the evidence based on application of the method set by regulatory precedent, which, as shown by EI's re-run of Ofgem's RIIO-GD2 approach (set out in our Business Plan), would result in a maximum OE target of 0.5%[5];

2. The underlying analysis used to inform Ofgem's range of potential OE assumptions from Grant Thornton's Report being materially flawed in approach and outcomes, particularly in relation to the selection of the time period and the omission of low productivity years as "outliers". Correcting for these errors results in a revised range of 0.1-0.9%, which contains our business plan proposal of 0.5% per annum, but not the Draft Determination position of 1% per annum.;

3. Ofgem's Draft Determination only recognising qualitative arguments to rationalise 'aiming up'

[4] Economic Insight (2025), "Independent Review of Ofgem's Draft Determination Approach to Ongoing Efficiency"
[5] Economic Insight (2024), "Ongoing efficiency for gas networks at RIIO-3", Annex 4

on the ongoing efficiency challenge within a benchmark range, with no consideration to incentives and arguments to the counter;

4. Ofgem's Draft Determination failing to acknowledge the difference in OE potential between the gas and electricity transmission sectors; and

5. Ofgem failing to evidence why a 1% per annum OE target is achievable by GDNs, despite the wider productivity slowdown, and the evidence showing the converse.

Based on these errors, it is clear that Ofgem's OE target of 1% for RIIO-GD3 is wrong, with underlying the evidence consistent with a figure of 0.5% being used, as proposed in our Business Plan. The remainder of this response addresses the five points above in turn.

A.1 Ofgem has relied on the precedent of outcomes *at previous regulatory decisions, rather than the precedent of* methods *previously applied to determine those outcomes*

Ofgem has proposed an ongoing efficiency target of 1% per annum, unchanged from the ongoing efficiency target set at RIIO-GD2 and RIIO-ED2. Ofgem's proposed target is significantly higher than the already ambitious OE target within our business plan of 0.5%, which was developed based on in-depth analysis undertaken by Economic Insight. Ofgem states that its proposed target "*reflects our in-the-round assessment of different sources of evidence, taking into account both quantitative and qualitative considerations*".[6] However, Ofgem's primary justification for this OE assumption is not based on a balanced assessment of the underlying evidence – for three reasons as follows:

- Ofgem's Draft Determination places disproportionate weight on the precedent of previous regulatory *outcomes*, as opposed to the *methods* applied previously;
- Both Grant Thornton's Report and Ofgem's Draft Determination focus on a prior expectation that the OE assumption should be 1% per annum; and
- If Ofgem were to instead rely on the RIIO-GD2 regulatory precedent of the method used to calculate the OE target, EI's analysis, submitted as part of our business plan, shows it would arrive at an estimate of at most 0.5%[7]

Ofgem's Draft Determination places disproportionate weight on the precedent of previous regulatory outcomes, as opposed to the precedent of the methods applied previously

Firstly, Ofgem has placed disproportionate weight on the outcome of regulatory precedent, as opposed to the method used to reach that outcome. There is an important distinction between these two principles: the former implies that an OE target set previously can be simply rolled forward in subsequent price controls. The latter implies that the methods used at previous price controls can be relied upon in subsequent price controls, but with the incorporation and consideration of up-to-date data and evidence. As explained in the EI Report, there are merits to relying on regulatory precedent of methodology to develop a stable regulatory approach, making regulatory processes more predictable and efficient. However, regulators should not rely solely on the *outcome* of regulatory precedent. Were only the *outcome* of regulatory precedent to be followed, in the extreme, there would be little point in setting periodic price controls at all, as all the parameters would be kept the same continually.

In its Draft Determination, Ofgem relies heavily on the OE assumptions made in the RIIO-GD2 and RIIO-ED2 price controls, and the view taken by Ofwat in the PR24 price control (which we note at the time of writing, is itself currently under CMA redetermination). Regulatory precedent outcomes alone should not be relied upon to justify setting this important regulatory parameter at a level that materially overstates the productivity growth seen in both comparator sectors and the wider economy since the 2008 financial crisis.

[6] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para. 8.25
[7] Economic Insight (2024), "Ongoing efficiency for gas networks at RIIO-3", Annex 4

Ofgem's advisor, Grant Thornton, states that "*the CMA concluded that Ofgem's decision to set the OE target was not an error*".[8] Whilst we do not dispute this, the CMA's decision certainly does not imply that this figure should be presumed to be appropriate at future price controls, or that Ofgem should adopt the 1% figure at future price controls without meaningful fresh consideration of up-to-date economic evidence. It is crucial that Ofgem does not prioritise the *outcome* of historical regulatory decisions over precedent of the *method* it uses to calculate regulatory parameters which reflect up-to-date economic evidence.

Ofgem's approach of presuming that the 1% OE figure is the "right answer" represents a departure from good practice, since, in doing so, it uses a process obviously designed to ignore new economic evidence that a better assumption is available and indicates that CEPA's methodology underpinning Ofgem's RIIO-2 OE target is no longer valid. It is critical that Ofgem acknowledges also that CMA decisions do not set precedent in this way. In particular, we note that a future CMA panel could reach a different view, particularly in light of new evidence.

As discussed further in the EI Report, relying on the outcome of a previous decision as precedent is:

1. Illogical, if the precedent is interpreted as the target, then, to the extent that one places weight on that, the target would always remain the same. The target would not change over time in response to changes in economic conditions, new evidence and other factors that should inform a consistent regulatory method, as it should; and
2. Inconsistent with Ofgem's approach to other areas of the price control, where they correctly start from the evidence before coming to a conclusion on the outcome, for example, Ofgem's approach to the cost of capital. This is not in the interest of customers and investors, since it is inconsistent with promoting efficient prices and outputs.

Both Grant Thornton's Report and Ofgem's Draft Determination focus on a prior expectation that the OE assumption should be 1% per annum

Secondly, whilst Ofgem claims in its Draft Determination to have commissioned a report from consultants Grant Thornton "*to assess OE evidence submitted within company business plans and provide a report with recommendations for the appropriate OE range and level for RIIO-3*", the report itself notes that having considered the evidence its approach is to "*test whether Ofgem's initial starting point proposed for the OE target (of 1%, contains in its Sector Specific Methodology Decision ("SSMD") and consistent with RIIO-2) is consistent with the range of evidence*".[9] This ends-driven approach, combined with how Ofgem have interpreted the evidence, represented an exercise by Ofgem to justify a pre-conceived 1% per annum OE target for RIIO-3.[10] This is evident from both Grant Thornton's conclusions and from Ofgem's use of the evidence within Grant Thornton's independent export report. Ofgem's approach is clearly subject to confirmation bias and therefore fundamentally flawed.

Regarding Grant Thornton's conclusions, Grant Thornton's report identifies a "narrow range" of ongoing efficiency estimates of 0.1 – 1.3% per annum. There is no justification for this so called "narrow" range based on the evidence. In particular, the upper end (i.e. 1.3% per annum) of this range results from an average of productivity indices taken from the 1997 to 2007 period alone, which completely ignores nearly two decades of recent economic data showing productivity growth has slowed markedly across the whole economy (the Grant Thornton report shows that even when omitting the years of 2008 and 2009, average productivity growth between 2010-2019 is 0.1%). Moreover, Grant Thornton's report shows that a "simple average" of its preferred TFP GO estimates of its selected comparator sectors across the entire range of time it considers would imply an OE target

[8] Grant Thornton (2025), "Independent Report on Ongoing Efficiency", pg. 24
[9] Grant Thornton (2025), "Independent Report on Ongoing Efficiency", pg. 31
[10] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para. 8.27

of 0.7%. Despite this, based on the inclusion of the 1.3% result, that is itself entirely unjustifiable, Grant Thornton concludes that a "*1% target starting point noted by Ofgem at SSMC is included within this range*".[11] Given the structure of the report, its own stated approach (noted above), and the report's conclusion, it is evident that Grant Thornton's report was intended by Ofgem merely to support Ofgem's a priori assumption that the OE target for RIIO-GD3 should be 1% per annum.

Notwithstanding the approach taken in the Grant Thornton report, Ofgem's use of the narrow range from the report of 0.1%-1.3% per annum to arrive at a 1% per annum challenge is flawed. Ofgem asserts that companies have an incentive to "aim down"[12] on their submitted OE assumption proposals with no justification and hence bifurcates Grant Thornton's range asserting that 0.1-0.7% represents assumptions that are not sufficiently challenging (noting 0.7% is the highest proposal put forward by companies). From its adjusted range of 0.7-1.3%, Ofgem then concludes that 1.0% is the mid-point of its range and hence provides a "balanced view". However, this conclusion is based on both an unjustified view that company proposals are not sufficiently stretching (an assertion we address below) and a lack of acknowledgement that its own advisor, Grant Thornton, stated a target above 1% per annum would risk underfunding the industry.[13] Hence, any figure in excess of 1% would – according to Ofgem's own advisors – be inappropriate, given Ofgem's Statutory duty to ensure companies are financeable. Taking this into account would result in a range of 0.1-1.0% per annum, with a "balanced view" arriving at 0.55%, remarkably close to Cadent and other gas networks' business plan proposals.

If Ofgem were to instead rely on the RIIO-GD2 regulatory precedent of methods used to calculate the OE target, based on EI's analysis, it would arrive at an estimate of at most 0.5%

Thirdly, the method which Ofgem relies on has been inconsistent between price controls. Grant Thornton, Ofgem's RIIO-GD3 advisor, has used different underlying assumptions than those used by CEPA at RIIO-GD2, to derive a higher ongoing efficiency assumption than would be derived based on updating CEPA's RIIO-GD2 methodology. The Table below summarises some of the key differences in Grant Thornton's methodology to derive an OE estimate for RIIO-3, versus CEPA's methodology for RIIO-2.

[11] Grant Thornton (2025), "Independent Report on Ongoing Efficiency", pg. 13
[12] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para 8.31
[13] Grant Thornton (2025), "Independent Report on Ongoing Efficiency", pg. 32

Table Error! No text of specified style in document.**: Grant Thornton's Methodology to Estimate RIIO-3 OE Fundamentally Differs from CEPA at RIIO-2**

	CEPA OE estimate for RIIO-2 (targeted comparator)	GT OE estimate for RIIO-3 (narrow range)
Comparator industries	• Construction • Wholesale and retail trade; repair of motor vehicles and motorcycles • Transportation and storage • Financial insurance activities	GT included the four comparator industries from CEPA's RIIO-2 estimate, plus: • Manufacturing (simple average of the six selected sub-sectors) • Information and communication • Professional, scientific and technical activities' administrative and support service activities
Time period	1997-2016, with no years removed as outliers.	Three scenarios: 1. 1970-1996 2. 1997-2007 3. 2010-2019 Ofgem's final 1% OE target was only within GT's estimate range for scenario 2.
Productivity metric	Value Added (VA) and Gross Output (GO)	GO only

Note: Both CEPA and Grant Thornton considered several sensitivities to produce their OE estimates. We only summarise methodological decisions used to generate final recommendations for OE targets.
Source: Cadent analysis of CEPA and Grant Thornton reports.

Notwithstanding that the choices made by Economic Insight in its analysis to estimate a range of ongoing efficiency assumptions for our Business Plan together represent a superior methodology, we think it is important to note that based on EI's update to CEPA's RIIO-GD2 methodology the proposed range of ongoing efficiency assumptions would be significantly lower for RIIO-3.[14] [15] Specifically, when:

- using CEPA's method, and updating the dataset set used (using the same time period but the latest EU KIEMS release of data) – EI's 'straight update' – the upper end of the range becomes 0.8%; and
- using CEPA's method, and updating both the dataset set and the time period assessed (to build in data until 2019) – EI's 'complete update' – the upper end of the range becomes 0.5%.

Therefore, clearly the choice by Ofgem to consider it appropriate to use the 1% per annum figure from the RIIO-GD2 price control as the "starting point" for the RIIO-GD3 OE figure, is an error.[16] In fact, based on the revised running of CEPA's analysis, any "starting point" grounded in RIIO-2 precedent should be considerably below 1% per annum. Given this result, the fact that Ofgem's consultants have taken a materially different approach to CEPA to generate a high level of OE potential again provides

[14] Economic Insight (2024), "Ongoing efficiency for gas networks at RIIO-3", Annex 4
[15] On 20 August 2025, we received a response to Cadent-DDQ046 from Ofgem which provided us with Grant Thornton's replication of CEPA's RIIO-GD2 methodology. Their results varied from the results of Economic Insight's replication. Owing to the time available to us and level of information provided by Ofgem, we have been unable to validate or assess the reasons for these differences for our response. We will seek further information to clarify the analysis undertaken by Grant Thornton to assess things more fully in the period up to Final Determination.
[16] Grant Thornton (2025), "Independent Report on Ongoing Efficiency", pg. 17, footnote 18

evidence against a balanced assessment of the underlying evidence.

A.2 Grant Thornton's analysis is materially flawed in the calculation of its "upper bound" of 1.3%

As set out in the EI report, there are a number of material flaws in the analytical approach employed by Grant Thornton in deriving their narrow range of benchmarked potential OE assumptions.

Grant Thornton, err in calculating the upper bound of the range which Ofgem subsequently relies on, of 1.3%. Grant Thornton's analysis has (i) relied on incomplete business cycles to obtain the upper bound of the range, and (ii) removed three years from its analysis (2008, 2009, and 2020). We discuss these two errors in turn.

i) To obtain the upper end of its range, Grant Thornton looked at data only from 1997-2007, which does not represent a full business cycle. It is well-established in both the relevant literature and in prior regulatory decisions (including by the CMA in the RIIO-GD2 appeal processes) that analysis of productivity growth should be conducted over complete business cycles. This is because productivity growth is correlated with GDP growth (i.e., productivity growth is procyclical) – full business cycles should therefore be used to avoid biasing any estimates (this captures the full range of productivity growth that inherently exists across full business cycles).[17]

ii) To rely on loose and unjustified claims that 2008, 2009 and 2020 are somehow remarkable (outlier) years of low productivity growth, but to not come to the same conclusions about years of remarkable high productivity growth (e.g. the dotcom bubble) and other notable years, represents a failure to apply a consistent approach to outlier identification and removal.

Further, while outlier removal in this context is not part of established regulatory precedent, or indeed best practice, if outlier removal were to be done, it should be done on an established and consistent statistical basis. That is to say, outlier removal is a technical issue, and should be treated as such. See Section 3C of EI's report for further discussion of this. [18]

Adjusting Grant Thornton's analysis to add back the outliers and include full business cycles significantly reduces the upper bound of its estimated range. Adding in the "outlier" years of 2008 and 2009 to the time period of 1997-2007 reduces the upper bound of the range from 1.3% to 0.8%. Subsequently, extending the period to include the nearest complete business cycle (1992-2009) **adjusts the range to 0.1-0.9%.** Therefore, the corrected range of Grant Thornton, and Ofgem, includes our Business Plan assumption of 0.5% per annum and excludes Ofgem's proposed RIIO-GD3 target from the plausible range.

A.3 Ofgem's Draft Determination makes incorrect assertions to justify 'aiming up' within a benchmarked range of OE assumptions – with little consideration given to arguments for the counter

Ofgem's Draft Determination makes a series of high-level claims to justify why it has selected an OE target of 1%, at the top end of Grant Thornton's proposed range of 0.1% to 1.3%, effectively 'aiming up':

- network companies have an incentive to 'aim down' in proposing OE assumptions[19];

[17] Further information on this can be found in Economic Insight (2025), "Independent Review of Ofgem's Draft Determination Approach to Ongoing Efficiency"
[18] Economic Insight (2025), "Independent Review of Ofgem's Draft Determination Approach to Ongoing Efficiency"
[19] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para. 8.31

- network companies are not fully impacted by the wider productivity slowdown following the financial crisis[20];
- historical customer-funded innovation funding will benefit GDNs' through future efficiency gains[21];
- network companies have Business Plans which include funding for IT&T and data and digitalisation initiatives, which offers significant opportunity for network companies to drive efficiency improvements through their businesses[22]; and
- network companies should benefit from funding for investments in innovative technologies (e.g., Advanced Leakage Detection – ALD – and the Digital platform for Leakage Analytics – DPLA) through future productivity gains.[23]

Each of these statements, however, is incorrect, unjustified, or based on an incorrect interpretation of proposals put forward in our Business Plan. In addition, we note that Ofgem has not addressed any arguments set out in our Business Plan for why it would be appropriate to 'aim down' in the benchmarked range. For example, our Business Plan explained how the unique challenges facing gas networks and the overlap between OE and other elements of the RIIO framework mean the middle or lower end of a benchmarked range is a more appropriate choice of assumption. If Ofgem had addressed these arguments, it could not reasonably have selected its own 'narrower' range of 0.7-1.3% per annum and instead would have selected the midpoint of 0.1%-0.9% per annum - i.e., 0.5%. We address each of Ofgem's statements in turn.

Ofgem unjustifiably claims that network Companies have an incentive to 'aim down' in proposing OE targets

Ofgem's Draft Determination makes the unjustified statement that companies have the incentives to 'aim down' in proposing OE assumptions, but provides no evidence that they have done so. We fundamentally disagree with this statement.

In our Business Plan, our OE assumption of 0.5% is based on an independent report commissioned on behalf of gas networks to generate an Ongoing Efficiency range of 0.2-0.8% per annum. This range incorporates a more realistic view of the potential reversion of productivity to pre-financial crisis growth levels than Grant Thornton's range – where EI assume partial as opposed to full reversion.

We then considered a broad range of factors which could lead to reasons for either 'aiming up' up or 'aiming down' within an estimated OE range. We discussed the impact of these factors on our choice of OE assumption in our business plan. For example, we considered overlaps between OE and other parts of the RIIO framework, such as catch-up efficiency, indexation of prices, and output targets, which may result in the true potential for OE in RIIO-GD3 being below the top of the estimated range, specifically:

- Productivity estimated via TFP trends in competitive industries will primarily reflect OE but may also include elements of 'catch-up efficiency'. No industry is 'perfectly competitive', so the estimated range from EI is likely to have an element of 'catch-up efficiency' included, as well as OE. This means the true level of OE potential will be lower than the upper end of their estimated range.
- OE can be driven through delivery of greater output quantity or quality for the same costs, rather than just through cost reductions. As such, where outputs become more stretching, the benchmarked TFP range will overstate the potential for OE to reduce Totex. Many of the outputs for the RIIO-GD3 price control (as with other price controls), are being re-baselined

[20] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para. 8.33
[21] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para. 8.33
[22] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para. 8.33
[23] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para. 8.33

making commitments for the new control more stretching than the last. For example, as explained inn our responses to GDQs 12, 15 and 17 Ofgem is increasing the standards and outputs we must deliver against for Customer Satisfaction, Complaints and Unplanned Interruptions relative to RIIO-2. As a result, this would suggest that the OE challenge applied to costs should likely be somewhat lower than the upper end of the benchmarked range.

- Price levels, as captured in measures of inflation, are in part driven by productivity changes, i.e. efficiency improvements can lower prices. This raises the potential for double counting efficiency gains that could be achieved by companies, as some OE is embedded in CPIH. Whilst we are unable to provide evidence on the extent of this overlap, the presence of this potential for double-counting also suggests that the true level of ongoing efficiency challenge may be below the upper end of the estimated range.

Based on this analysis we determined that there is no reason to diverge from the midpoint of EI's benchmarked range and, in fact, that there are factors that could justify a lower assumption, that would also be consistent with Grant Thornton's benchmarked range.

Furthermore, whilst Ofgem's Draft Determination asserts network companies have an incentive to 'aim down' on OE assumptions, no recognition is given to the fact that the Regulator has incentives to 'aim up' on the assumptions. For example, a regulator could set an overly challenging OE assumption outside of the range supported by the evidence in order to enhance its external reputation (by being seen to be significantly stretching on company business plans and hence targeting bill reductions for customers).

Ofgem wrongly claims that network companies are not fully impacted by the wider productivity slowdown following the financial crisis

Ofgem asserts that "*network companies are not fully impacted by wider productivity slowdowns, given the predictability that the price control frameworks provide over future revenues and returns compared to companies operating in competitive markets*"[24]. This is an unjustified statement and takes no consideration of the detailed analysis undertaken by EI to inform the GDNs' OE proposals, as summarised in our business plan. As presented in our business plan, there is no clear evidence that regulation protects companies from the impacts of the productivity slowdown. As a result. this argument does not justify an OE target towards the top of a benchmarked range.

As set out in our Business Plan, EI identified the four most pertinent drivers of the productivity slowdown since the 2008 financial crisis, and evidenced that, for each driver, regulation does not insulate gas networks from their effects on productivity:[25]

1. **Lack of public and private investment**: EI's analysis shows that lack of public and private investment since the 2008 financial crisis has been a key contributing factor to the productivity slowdown. Moreover, EI shows that UK energy sector growth has not experienced systematically more, or less, growth in investment over time compared to the UK total since the 2008 financial crisis. Evidence also shows that there has been economy-wide underinvestment in the UK. Hence, evidence suggests that regulation has not insulated gas networks from the impact of lower public and private investment (i.e., underinvestment) on productivity growth.
2. **Infrastructure quality**: EI's analysis shows that infrastructure quality is a key factor in determining productivity growth, and hence the productivity slowdown. EI also shows evidence to suggest that the UK has low quality of infrastructure, such as its road system, which has therefore contributed to the productivity slowdown. All companies, including gas networks, rely

[24] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para 8.33
[25] Economic Insight (2024), Ongoing efficiency for gas networks at RIIO-3, Section 3

on the same infrastructure. Thus, there are no grounds to suppose regulation can mitigate the productivity growth slowdown resulting from this factor.

3. **Quality of the human capital stock:** EI's analysis shows that a key factor driving productivity (and the productivity slowdown) is the quality of the available labour force. Similarly, to infrastructure, gas networks will be affected by the human capital stock in the UK economy, the same as any other company operating in the UK. Therefore, there are no grounds to suppose regulation can mitigate the productivity growth slowdown resulting from this factor.

4. **Management quality:** EI's analysis shows that another important determinant of productivity growth (and the productivity slowdown) is firm management quality. Similar to infrastructure quality and quality of the human capital stock, companies across all sectors in the UK economy, including gas networks, will be drawing from the same pool of managers, thus, there are no grounds to suppose regulation can mitigate the productivity growth slowdown resulting from this factor.

Therefore, Ofgem's assertion that price control frameworks should allow GDNs to achieve efficiency gains, despite the economy-wide productivity slowdown is unfounded and incorrect.

Ofgem wrongly claims that historical customer-funded innovation funding will benefit GDNs' future efficiency gains.

Ofgem asserts that historical customer-funded innovation funding will benefit GDNs' future efficiency gains. Ofgem states that during RIIO-2, it made £536m of innovation funding available through the Strategic Innovation Fund (SIF) and £262m available through the Network Innovation Allowance (NIA), and whilst it cannot specify the value of the efficiency it expects to be achieved from this funding, it considers that it is "*reasonable to expect productivity benefits from these historical investments to occur during RIIO-3*". [26]

This argument is unfounded and incorrect. Moreover, the CMA Final Decision on the RIIO-GD2 appeals determined that it was an error by GEMA to uplift the benchmarked estimate of OE to account for these supposed benefits. A key reason for this being that the vast majority of RIIO-GD1 innovation stimulus funding was not directly targeted toward cost savings in previous periods. This is still true today, as RIIO-GD2 SIF and NIA project scope criteria do not include investments to reduce costs, instead being targeted towards supporting the net zero transition or supporting vulnerable customers. Specifically, as stated by Ofgem, the purpose of SIF is to fund projects that "support network innovation that contributed to the achievement of net zero" and the purpose of the NIA is to fund "innovation relating to support for customers in vulnerable situations and/or the energy system transition".[27]

As a result, this innovation stimulus funding has no impact on cost efficiencies that can be achieved in the business, and are therefore irrelevant to the setting of the OE target.

Ofgem wrongly claims that IT&T and data and digitalisation funding offers significant opportunity for network companies to drive efficiency

One of the justifications which Ofgem provides for an OE target of 1% per annum is that "*Companies have submitted funding requests for £4.3bn in RIIO-3 for IT&T and data and digitalisation, a 65% increase on RIIO-2, where they expect to spend £2.6bn. Growth accounting analysis shows that the IT and communications sector has comparatively strong historical productivity growth rates compared to many other sectors. Therefore, the additional funding we have proposed for IT&T and data and digitalisation activities offers significant opportunity for network companies to drive efficiency improvements through their businesses*"[28].However, we are not an IT company. We therefore cannot be expected to achieve the same efficiency gains as pure IT or technology companies. Indeed, as

[26] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para 8.33
[27] Ofgem (2020) "RIIO-2 Final Determinations – Core Document"; pg. 99, 105
[28] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para. 8.33

detailed in the EI Report, economic theory clearly shows that "***the increased productivity of the IT sector does not translate one-to-one into higher productivity growth for the downstream sector***."[29]

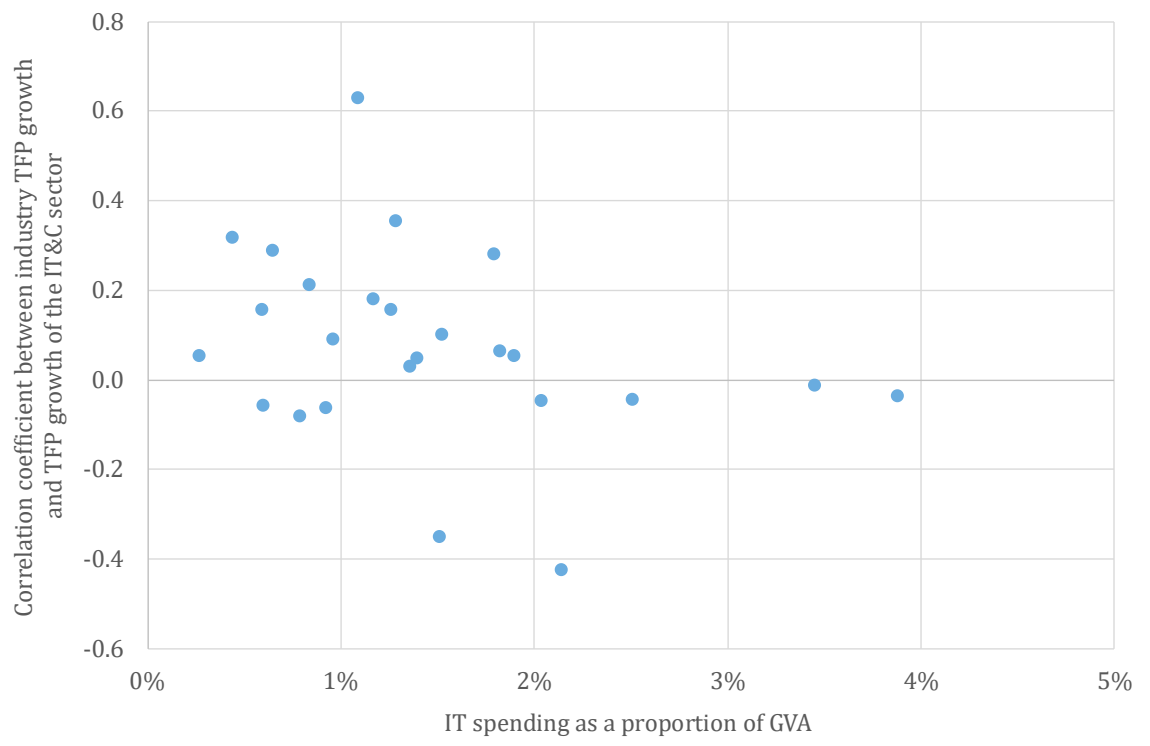
As part of our response, we have examined the aims of the specific IT&T and data & digitalisation projects which we and the other GDNs have put forward to be funded during RIIO-GD3. Our review shows that these projects are not primarily intended to drive cost efficiencies. Instead, these projects are intended to replace end of life assets or improve systems within the business. Whilst replacing some of these assets may well allow us to avoid cost pressures within our business, these avoided costs are already embedded into our Business Plan forecasts. As a result, investment in these areas cannot yield further efficiency gains beyond those within our RIIO-GD3 forecasts.

In Annex – OvQ19-2, we present the results of analysis we have undertaken to assess the objectives of GDN's IT&T and data and digitalisation projects. None have the primary aim of driving cost efficiencies. We also note that, many of the projects we will undertake over the RIIO-GD3 period will actually add costs into our businesses (and not drive efficiencies) to put in place significant additional safeguards for our data, systems and assets. For example, we have forecasted significant expenditure in the Cyber cost area to respond to exogenous risks which our business faces and to meet required standards, but these investments will not yield efficiencies which will reduce our costs.

More generally, EI have also sought to assess Ofgem's assertion that gas networks spending more on IT&T will yield higher productivity benefits due to the IT sector becoming more productive, by examining actual data. In their report, EI note that, if high IT&T productivity growth was shared with companies that are spending heavily on IT&T, we would expect to see a positive correlation between spending on IT (as % of GVA) and the correlation between Total factor Productivity (TFP) growth in an industry and TFP growth in the IT sector. If the data were to show this, it would indicate that more spending on IT in a sector leads to a similar level of growth between that sector and the IT sector. The results of this analysis are replicated in the chart below.[30] As shown, there clearly is no general correlation as Ofgem assert. This means Ofgem's use of this argument is a clear error, being both unjustified and incorrect.

[29] Economic Insight (2025), "Independent Review of Ofgem's Draft Determination Approach to Ongoing Efficiency" pg 28
[30] Economic Insight (2025), "Independent Review of Ofgem's Draft Determination Approach to Ongoing Efficiency" pg 28-29

Figure 1: High IT&T productivity growth is not shared with companies that are spending heavily on IT&T



Source: Economic Insight analysis of ONS and EU KLEMS data.(See Annex QvQ19 - 1)

We also do not expect that we will benefit significantly from leveraging Artificial Intelligence (AI) over the RIIO-3 period. This commercial application of this technology is still in its infancy, with potential uses unclear. As a result, and as set out in the EI report, any conjecture, therefore, made that AI will lead to significant productivity gains in RIIO-3, similar to the period Grant Thornton use to justify the upper end of their range (i.e. 1997-2007) are unjustified and false. Indeed, following the financial crisis we saw adoption the of new and innovative technologies, such as smart phones, cloud storage and computing, collaborative work software, and 3D printing, but this remained a period of low productivity growth.[31]

Ofgem wrongly claims that ALD and DPLA funding justified a 1% OE assumption.

Ofgem's Draft Determination also specifically cites funding granted for ALD and DPLA initiatives in GDNs' business plans to justify their OE target of 1% per annum, arguing there are significant productivity improvements to be delivered from these investments. However, again, this high-level statement is unjustified and does not take account of how we, and other networks, have treated these investments and their consequential impact on our activities. While we are pleased to see this funding, the technology will only be rolled out throughout the RIIO-3 period (and likely at different speeds across networks), with any material changes in workload and cost changes not being realised instantly when RIIO-3 starts and only being evident in future regulatory periods. Furthermore, any impact that rollout of these technologies will have on our activities is *already* incorporated in our Business Plan cost forecasts and chosen ongoing efficiency assumption. Therefore, to use funding for these activities to justify further ongoing efficiency gains above this is an error.

[31] Economic Insight (2025), "Independent Review of Ofgem's Draft Determination Approach to Ongoing Efficiency" pg 29-32

A.4 Ofgem's Draft determination fails to acknowledge the difference in OE potential between the gas and electricity transmission sector.

Ofgem's Draft Determination also errs in assuming, without consideration, that setting a single OE challenge across gas and electricity transmission sectors (and drawing any inference from electricity transmission OE assumption proposals – such as NGET's proposal of 0.7% per annum) is correct.

Ofgem has not addressed the information and arguments within our Business Plan for why gas networks are unlikely to be able to drive the same scale of productivity benefits as electricity transmission networks over the forthcoming period. As set out in our Business Plan:

- Gas networks face unique challenges in attracting future investment relative to other regulated sectors (e.g., electricity) moving forward, given uncertainty regarding the future of gas networks – declining demand means productivity improvements can be difficult to achieve, as investments to improve efficiency may require a faster 'payback' than previously. Ofgem has exacerbated this by reducing the payback on gas investments to 11 years[32]; and
- It is likely that gas networks have less scope for OE improvements compared to electricity networks as these networks will see large programmes of capital investment over coming control periods to meet increased demand for network capacity. These investments that expand networks may help to achieve greater economies of scale, unlike the gas networks which are set to serve diminishing demand. [33]

Therefore, the use of electricity transmission proposals to inform the OE challenge for gas networks is wrong.

A.5 Ofgem makes no attempt to evidence why 1% per annum is achievable

In addition to the error Ofgem makes in setting an unjustified 1% per annum efficiency challenge, Ofgem also errs in not considering whether such a challenge is actually achievable by the GDNs, based on the historical evidence available. This is important as, whilst we recognise OE is a 'challenge', Ofgem must also meet its statutory obligation to ensure that companies are financeable. When considering whether an OE target is achievable, Ofgem must consider the historical evidence (which, as discussed above, indicates an OE target significantly below 1%), and not GDNs historical out-or underperformance relative to totex allowances. We consider this important to raise in our Draft Determination response since, in other contexts, including Ofgem's assessment of the level of its catch-up efficiency challenge, Ofgem uses outturn allowance comparisons to justify decisions taken within its Draft Determination.[34][35]

As noted in our Business Plan, it is impossible to interpret past regulatory performance in previous price controls to draw inference on whether OE was achieved or was achievable. This is because of:

- The inability to disentangle catch-up and ongoing efficiency delivered and any network or company under/outperformance on costs relative to allowances means Ofgem and the networks cannot determine whether OE was achieved/achievable based on past regulatory performance;
- The inability to ascribe under/outperformance on costs to OE gains, when they may well result in cost reduction due to workload reduction or other means which are not associated with an analogous mechanism to reduce allowances at the end of the price control; and

[32] Ofgem (2025), "RIIO-3 Draft Determinations Gas Distribution Annex", para. 3.69
[33] As set out in Appendix 3 to our Business Plan, Cost Assessment and Benchmarking Approach (pg 89) the same logic also applies to the water sector relative to gas networks
[34] Ofgem (2025), "RIIO-3 Draft Determinations Gas Distribution Annex", para. 5.280
[35] We note also in our response to GDQ42 that Ofgem's use of allowance comparison to justify the setting of the level of its catch-up efficiency challenge is also wrong for similar reasons

- The difficulty in accounting for errors in the setting of price control allowances which lead to some companies/networks achieving outperformance, rather than delivering OE.

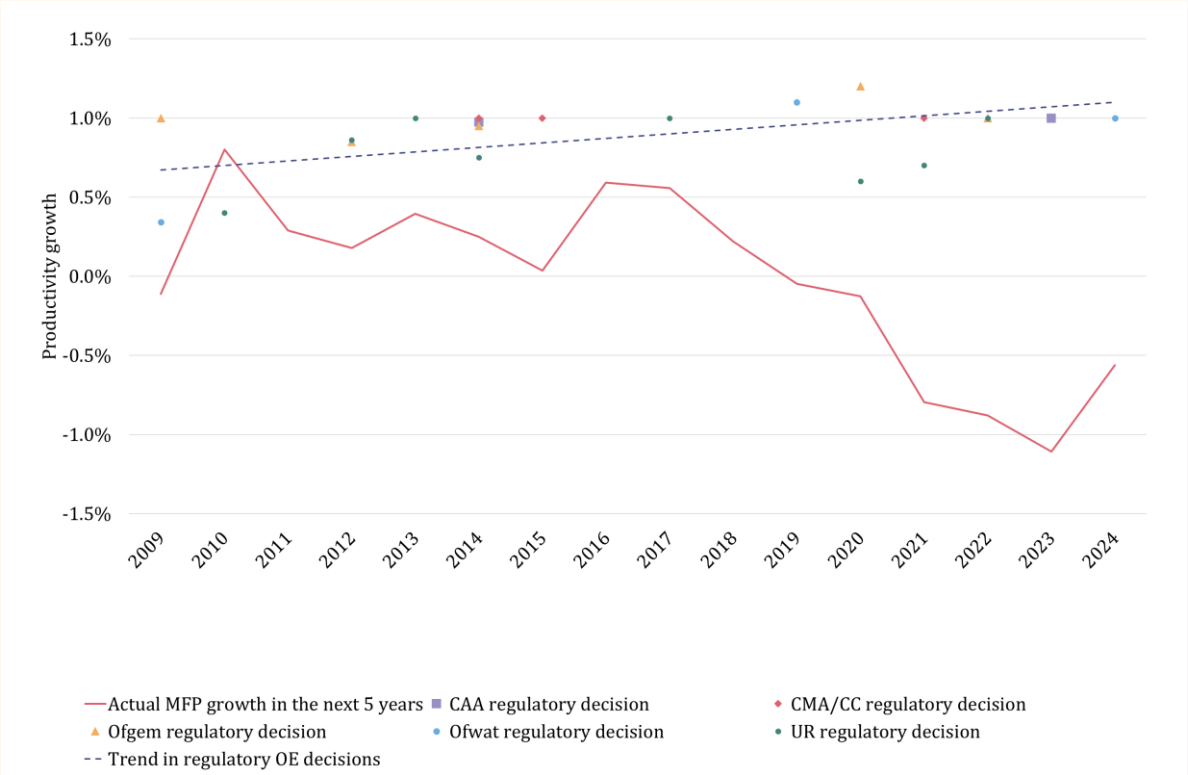
[redacted]

In contrast, what *can* shed light on actual levels of OE achieved is a comparison of outturn UK productivity data relative to past OE challenges set by regulators across sectors. This comparison is appropriate, as there is no evidence to support the assertion that regulated companies, including gas networks, can outperform the wider UK economy in productivity performance (as explained in our Business Plan). Therefore, if actual productivity performance achieved in the UK economy ex-post of an OE target set by a regulator is below that target, evidence indicates that the target level of OE was not achievable.

The additional evidence set out in Figure 2 below, compiled by EI, compares levels of regulatory OE targets across sectors (including gas and electricity) to the level of multi-factor productivity achieved for different sectors in the UK economy, published by the ONS. Each point represents a different OE decision made by a Regulator ex-ante (and normally set for at least a five-year period), and the line represents actual productivity achieved in the following five years.

As shown, the actual productivity (MFP) growth in the next five years is, in all but one year, majority of cases, significantly below ex-ante OE targets set by regulators and, since 2009, always below the 1% per annum level set by Ofgem in the Draft Determination. As a result, there is empirical evidence to suggest that in fact Ofgem's Draft Determination's OE assumption is unachievable.

Figure 2: Comparison of Regulatory OE Targets and Outturn Productivity Growth



Source: Economic Insight

A.6 Failure to correct its OE target would result in our networks being underfunded by £162m

Based on the evidence set out above, there are clear errors in Ofgem's Draft Determination in setting a 1% per annum OE challenge:

1. Ofgem relies on the *outcome* of regulatory precedent to support its prior expectation of a 1% target assumption, and is not led by the evidence based on application of the *method* set by regulatory precedent;
2. The underlying analysis used to inform Ofgem's range of potential OE assumptions from Grant Thornton's report is materially flawed in approach and outcomes;
3. Ofgem's Draft Determination only recognises qualitative arguments to rationalise 'aiming up' on the ongoing efficiency challenge within a benchmark range, with no consideration to incentives and arguments to the counter;
4. Ofgem's Draft Determination fails to acknowledge the difference in OE potential between the gas and electricity transmission sectors; and
5. Ofgem fails to evidence why a 1% per annum OE target is achievable by GDNs, despite the wider productivity slowdown, and the evidence showing the converse.

By contrast, the OE target proposed within our Business Plan of 0.5% is based on a superior method and is clearly a more appropriate OE target for networks based on the underlying evidence.
We also note that:

- Correcting for Ofgem's error not to include the minimum bound identified by Grant Thornton in its report, and correcting for Grant Thornton's error to not include full business cycles within the time period considered yields a new range of assumptions between 0.1% - 0.9%. This range

includes our Business Plan proposed level of OE, but not Ofgem's Draft Determination proposal.

- As a cross-check, EI's update of CEPA's RIIO-GD2 methodology (following precedent of *method*, not *outcome*), yields a range with an upper end of 0.5%. Again, including our Business Plan proposed level of OE, but not Ofgem's Draft Determination proposal.

We therefore consider to correct the errors made in its Draft Determination, Ofgem should adopt an OE target of (at most) 0.5% for the RIIO-GD3 period, following our Business Plan proposal.
If this error is not corrected in Ofgem's Final Determination, our networks, and the whole industry will be underfunded over the RIIO-GD3 period by £162m and £330m respectively. This is shown in Table 2, relative to our error corrected version of Ofgem's Draft Determination model (discussed in our response to GDQ32), which also contained a significant OE application error when published.[36]

Table 2: GDNs RIIO-GD3 Allowances (£m, 23/24 prices): Cadent Error-Corrected Model vs. Cadent Error-Corrected Model with Corrected OE Target (0.5%)

	Cadent Error-Corrected Model (£m)	Corrected Draft Determination Model with Corrected OE Target (0.5%) (£m)	
EoE	2,129.93	2,183.74	53.81
Lon	1,676.67	1,719.57	42.91
NW	1,439.22	1,475.71	36.48
WM	1,135.13	1,163.75	28.62
NGN	1,542.63	1,582.29	39.66
Sc	1,091.82	1,119.38	27.56
So	2,438.78	2,500.13	61.34
WWU	1,564.09	1,603.63	39.53
Cadent Total	**6,380.96**	**6,542.77**	**161.82**
Industry Total	**13,018.28**	**13,348.20**	**329.91**

Note: Allowances reported are efficient modelled costs + bespoke outputs and technical assessments, including frontier shift.
Source: Cadent analysis

Section B

Ofgem's application of OE begins one-year before it should

Ofgem's application of OE target in the Draft Determination begins in the financial year of 2024/25, with the 1% target being compounded for each subsequent year. However, the financial year of 2024/25 has already elapsed, and we understand that for the Final Determination modelling, this year of data will *not* be updated to reflect outturn data for this year, despite offering to provide Ofgem with outturn data in the required format by the end of August/early September 2025.

Ofgem stated that the reason it will not update the 2024/25 data in its cost assessment model is that, from a high-level sense check, replacing forecast data with the outturn data has only a "negligible impact"[37] on the benchmarking. Implicitly, Ofgem is therefore assuming that the forecast data

[36] Further information on errors in Ofgem's published Draft Determination model suite are set out in Annex – GDQ32-1
[37] Email received from Ofgem, 13 August 2025

submitted by GDNs in December 2024 (for the financial year 2024/25) is a good-enough proxy for actual data.

Clearly, there is no opportunity for the GDNs to achieve OE gains for historical, outturn expenditure, which Ofgem is proxying for with the GDNs' Business Plan forecast data. Therefore, it would be irrational for Ofgem not to amend its starting year of application to 2025/26 in the Final Determination modelling (i.e. the OE target should compound from 2025/26, not 2024/25).

This approach would be consistent with Ofgem's approach at RIIO-GD2, for which the application of OE began in 2020/21, the last year of RIIO-GD1 and the only remaining forecast year of expenditure at the time of the Final Determination (December 2020).

As shown in Table 3 below, failing to correct this would result in underfunding Cadent by £33m and the industry as a whole by £67m.

Table3: GDNs RIIO-GD3 Allowances (£m, 23/24 prices): Cadent Error-Corrected Model with Corrected OE Target (0.5%) vs. Cadent Error-Corrected DD Model with Corrected OE Target and Application Start Year

	Cadent Error-Corrected Model with Corrected OE Target (0.5%) (£m)	Cadent Error-Corrected Model with Corrected OE Target (0.5%) & Correct Application Start Year (£m)	
EoE	2,183.74	2,194.72	10.97
Lon	1,719.57	1,728.21	8.64
NW	1,475.71	1,483.12	7.42
WM	1,163.75	1,169.60	5.85
NGN	1,582.29	1,590.24	7.95
Sc	1,119.38	1,125.01	5.63
So	2,500.13	2,512.69	12.56
WWU	1,603.63	1,611.68	8.06
Cadent Total	**6,542.77**	**6,575.65**	**32.88**
Industry Total	**13,348.20**	**13,415.27**	**67.08**

Note: Allowances reported are efficient modelled costs + bespoke outputs and technical assessments, including frontier shift.
Source: Cadent Analysis

Section C

Ongoing Efficiency should not be applied to re-opener, pass-through or indexation UMs, but could be applied to Volume Drivers set at the outset of the price control

Ofgem's Draft Determination states that "*we are still considering whether to apply OE, in certain cases, for UMs*".[38] In principle, we agree that it may be appropriate to apply OE to some expenditure allowed via UMs. However, the ability for GDNs to make OE improvements is not consistent across cost areas. Moreover, not all UMs are structured in the same way. Given the different types of UMs that Ofgem proposes to use at RIIO-GD3, we have considered each type in turn. Based on our analysis, we believe Ofgem should preserve the current approach of applying OE only to volume drivers, if appropriate, but ensure that unit costs are set at a constant level throughout the period to avoid any perverse incentives on GDNs to bring work forward to avoid additional OE later in the period.

C.1 Ofgem should not apply OE to re-opener funding

Re-openers are used by Ofgem to fund GDNs' allowances where there is not sufficient certainty over the size and scope of costs to provide ex-ante funding through baseline allowances when setting the price control. The reason these costs may be uncertain is because the need to deliver new outputs or the need to deliver existing outputs in a different way may emerge over time. OE gains are predicated largely on the ability to continually deliver a set of known and consistent outputs with reduced inputs over time. Furthermore, for many re-openers, networks are seeking ex-post allowances for costs already incurred. Clearly in these cases there is no potential to drive OE gains as costs are already incurred. We think it is therefore inappropriate due to the nature of costs funded through re-openers and when re-opener claims are made, to expect any OE gains through expenditure claimed through re-openers. We note that this is consistent with Ofgem's approach at RIIO-GD2 and our response to Ofgem's SSMD.[39]

C.2 Ofgem should not apply OE to pass-through funding or indexation UMs

Similarly, given the nature of pass-through costs (e.g., licence fees) and indexation UMs (e.g., RPEs) being outside of management control we do not consider it is appropriate for Ofgem to apply OE to these costs. We note that this is also consistent with Ofgem's approach at RIIO-GD2.

C.3 Ofgem could apply OE to volume drivers set at the outset of the price control

Volume drivers are mechanisms which allow Ofgem to adjust GDNs' allowances based on the actual volume of work or activity undertaking within the price control period. For RIIO-GD3, Ofgem has proposed two volume drivers, one for Tier 2A mains and services repex, and one for safety disconnections. Given that these costs are associated with activities which GDNs undertake routinely, but the volume of the workload in the GD3 period is uncertain, we consider that OE could be applied to these costs. We note that this is consistent with Ofgem's approach at RIIO-GD2. However, in setting volume driver unit rates, we think it is important that Ofgem does not set unit rates which vary over time purely due to OE. Were unit rates to be specified in this way it could lead to potentially perverse incentives to bring forward work to increase potential allowances relative to undertaking work later, when it may not be the most efficient whole life cost decision.

[38] Ofgem (2025), "RIIO-3 Draft Determinations Overview Document", para 8.24
[39] Cadent (2024) "RIIO-3 Sector Specific Methodology Consultation: Cadent Response to Ofgem Overview Document", March 2024, P. 37-38

OVQ20 Do you agree with our proposed NIA funding levels?

We do not agree with the DD's proposed NIA funding levels for Cadent. Please see our response to the Cadent Annex Q15

Furthermore, we find the proposed NIA criteria to be too narrow, excluding entire categories of innovation that are relevant to and in the interests of current and future energy customers. We strongly recommend that the NIA criteria be significantly broadened to allow projects related to:

- Resilience
- Environment and Climate impact mitigation and adaptation
- Customer service (including for non-vulnerable customers)
- Health and safety

We believe these areas should be included for the following reasons:

- they are priorities to customers and stakeholders and align with price control headline deliverables of 'safe, resilient and reliable networks' for the benefit of consumers
- they support and do not duplicate other aspects of the price control
- several of these areas are not incentivised or funded elsewhere
- there is material risk in pursuing projects in these areas due to a combination of the lack of certainty around innovation project outcomes and the lack of connection between these areas and company financial outcomes.

The impact of their exclusion, combined with the tight financial profile and the inherent uncertainty that innovation projects involve, means that only incremental, or near certain (i.e. not very innovative) changes will get explored and implemented.

The innovation supply chain is a diverse and creative community that brings ideas and suggestions irrespective of any criteria. We welcome this, but regret that the opportunity to engage meaningfully with a lot of good ideas is limited by the scope of the NIA. Especially given Ofgem's proposed close oversight of NIA projects, which provides a mechanism to scrutinise and shape project scopes as needed, we would welcome a broadening to the NIA criteria.

OVQ21 Do you agree with our approach to the future of gas-related workstreams?

We do not agree with all the DD's proposed approach to gas-related workstreams within the NIA for the following reasons.

- We do not agree with the proposed position on hydrogen blending. This area presents a clear and immediate innovation challenge for the utilisation of the existing network, and excluding it from NIA funding will prevent valuable work from progressing. Hydrogen blending is a practical, short-term step that supports system resilience and customer outcomes and is not something that will be covered under the Hydrogen Transportation Business Model, which is more aimed at 100% hydrogen transportation.

- We recommend that Ofgem reinstates hydrogen blending within the scope of NIA. This adjustment would be proportionate, appropriately targeted, and aligned with the strategic direction of the gas networks. It would also ensure that the NIA remains a credible and effective mechanism for supporting innovation that delivers long-term value to customers.

We support the continued inclusion of biomethane, and this will be an essential element of supporting the potential for the biomethane industry to support the transition to net zero

In a similar way to the support for biomethane, we suggest that the NIA would be a useful vehicle to ensure innovation that might support the transportation of any lower carbon gas through the existing networks would be beneficial for current and future customers. Whilst we recognise that development of hydrogen innovation may be incorporated into the Hydrogen transportation Business Model at some point, before that has been established, we think enabling innovation surrounding the use of the existing network should be in scope.

OVQ22 Do you agree that £2.5m of additional NIA should be used to provide enhanced advisory services for innovators at the early stages of innovation development?

We support the principle of enhanced advisory services for early-stage innovators, but we believe that the value of this proposal is conditional on broader change to the NIA framework, particularly the broadening of NIA criteria as outlined in our response to OVQ20.

The root causes of the challenges innovators face when engaging with networks are:

- The overly narrow NIA criteria, which restrict the types of innovation that can be supported.
- The lack of scale-up funding options, which limits the pathway from concept to deployment.

Exploring these two points in turn:

The NIA criteria do not, in themselves, prevent engagement with innovators. However, the relatively narrow NIA criteria in RIIO-2 and limited other options for funding projects leads to a significant challenge for many of the ideas we are approached with. Totex-funded innovation projects do occur and Cadent has featured these in our annual innovation summary, but in tight price controls where allowances are being overspent to deliver commitments, totex-funding for innovation, which naturally caries uncertainty and lead times before delivery and value generation, is challenging to secure for projects that support company financial performance. Projects without a financial opportunity, in this context, are even harder to fund.

A route to scale up proven innovation is critical to benefits realisation. This is one of the so called "valleys of death" faced by innovation and change projects. Our response to OvQ26, in which we support the proposed scale-up fund via SIF, outlines our position.

a. These constraints, combined, mean that network companies are often cautious to engage deeply with early-stage innovators, judging that the likelihood of progressing to delivery may be very low. This can create a cycle of disengagement that the proposed advisory service alone cannot break. To deliver greater benefits and engagement with innovators we recommend a package of changes that we believe can apply synergistically in RIIO-3:The creation of scale-up funding options, as Ofgem has proposed via SIF;
b. Significantly broader NIA criteria, per our OVQ20 response;
c. The introduction of an enhanced advisory service, as Ofgem proposes;
d. Increased Ofgem oversight and engagement, which we welcome Ofgem's proposals for.

We believe that the advisory service could be provided by a few potential parties, including FEN, UKRI. We also believe that it may be possible to deliver the intended improvement for less than the proposed £2.5m. A more efficient and effective approach would be to deliver the advisory service through a modest expansion of the FEN's innovation team, which already plays a stakeholder-facing role. Leveraging the existing Innovate UK 'business connect' service in a coordinated way would be an efficient approach to improve the structure of company-innovator engagement on specific projects/ challenges. This approach would avoid unnecessary duplication of governance (i.e. it's simpler) and could be delivered at lower cost over the RIIO-3 period.

OVQ23 Do you agree with our approach to improving oversight and reporting of the NIA?

We support the principle of increased oversight for NIA projects, particularly for larger initiatives where the scale of investment justifies closer scrutiny. However, we believe that the DD's current proposal lacks clarity in key areas and risks introducing unintended consequences that could undermine the effectiveness of the NIA.

To ensure a clear and transparent process, clear definitions are required in respect of what constitutes a "larger project" and whether a value cap or threshold will be used to determine the level of oversight. Without this clarity, there is a risk of inconsistent application and uncertainty for project partners.

It is also essential that increased oversight does not delay project timelines, especially for smaller, short-term innovation projects where agility and speed are critical to success. The risk of delayed decision-making due to additional governance steps must be carefully managed as this further disengages innovators, the opposite of what the advisory service will be looking to resolve. We believe this risk can be contained through well-designed NIA governance that is proportionate and targeted. In addition, the costs of any additional audits will need to be factored in.

We welcome the closer connection between innovation projects and Ofgem's policy work, and we agree that Ofgem's engagement on larger projects could add value to project delivery and implementation. This engagement should be structured in a way that provides the maximum support to projects.

We suggest that increased engagement from Ofgem on project scope and selection helps to create the opportunity to broaden the NIA criteria, as emphasised in our responses to OVQ20 and OVQ21. This would ensure that oversight is applied to a wider and more impactful range of innovation activity.

Finally, we agree that the Innovation Measurement Framework (IMF) needs improvement, and we welcome Ofgem's commitment to this. However, we stress that the narrow NIA criteria and limited scale-up funding options currently in place inherently limit the value that can be delivered and reported through the IMF.

OVQ24 Do you agree with our proposals to allocate £500m for SIF funding?

We support Ofgem's proposal to allocate £500 million for the Strategic Innovation Fund (SIF) in RIIO-3.

OVQ25 Do you agree with our proposals to introduce a 'Programmatic Approach' to the SIF?

We agree with the principle of more collaborative delivery and clearer accountability for the outcomes of SIF projects. We recognise the potential value of a 'Programmatic Approach' and welcome Ofgem's leadership in shaping a more strategic and outcome-focused innovation environment.

We see merit in the proposed Taskforce model, particularly in its potential to bring greater clarity and coordination across projects. However, we look forward to seeing further detail on the composition of the Taskforce, including how it will interact with existing governance structures. All network companies already operate Independent Stakeholder Groups (ISGs) and Customer Challenge Groups (CCGs) many of which include sustainability and environmental subgroups aligned with SIF's net zero objectives. Including selected ISG/CCG members in the Taskforce could enhance alignment and ensure consistent messaging and feedback across the sector.

We also note that lead networks and partners currently bear the majority of accountability for delivery and post-beta implementation. This is likely due to the strong sense of ownership that comes with leading a project. It is not yet clear how the programmatic approach will redistribute or support this accountability. The Taskforce could play a valuable role in bridging this gap by making specific recommendations on which SIF projects should be implemented, by whom and by when.

In summary, we support the direction of travel but emphasise the need for:

- Greater clarity on Taskforce composition and governance.
- Inclusion of existing stakeholder voices.
- Clear mechanisms for implementation accountability.

OVQ26 Do you agree with our proposal to introduce a £50m deployment fund, utilising £50m from the total £500m SIF allocation?

We support the introduction of a £50 million deployment fund within the Strategic Innovation Fund (SIF). This proposal directly addresses one of the most significant barriers to innovation delivery: the lack of funding to scale and implement proven solutions.

The current innovation framework lacks sufficient mechanisms to support implementation, and this has historically limited the impact of successful R&D and the benefits that can be obtained from them. We support Ofgem's recognition of this issue and view the deployment fund as a positive step forward in rebalancing the innovation lifecycle—shifting more emphasis toward delivery and impact, rather than solely research and development.

We would welcome the opportunity to contribute to the development of the eligibility, process, and decision-making criteria for this fund. Clear and transparent governance will be essential to ensure that the deployment fund delivers maximum value for consumers and the energy system. We expect that the criteria would be similar to the NIA and SIF, requiring innovations to deliver strong benefits to consumers, but not pay back adequately from a company point of view to qualify for this fund (otherwise this could be funded like other general innovations from totex allowances as part of BAU expenditure).

In addition, we believe that a similar ODI-F mechanism for innovation delivery in gas distribution networks that targets the same five outputs as those proposed for electricity transmission (ET) would be appropriate. This would ensure consistency across sectors and further strengthen the pathway from innovation to implementation.

Justification applied to ET for an ODI-F can be replicated for gas distribution. We have similar barriers to early-stage innovation and implementation, we can drive consumer value from innovation and it aligns with RIIO principles. Gas networks are not experiencing the same level of growth but still play a fundamental part in energy security and have customers that would benefit from innovation delivery. (***refer to transmission electricity draft determinations section 3.2.14).***

OVQ27 Do you agree that the deployment fund should also be open to innovation projects that haven't been funded through NIA, NIC or SIF?

We support Ofgem's proposal to allow the deployment fund to be open to innovation projects that have not been funded through NIA, NIC or SIF, as long as these projects meet the same criteria. Similar to our response in OVQ26 – to qualify for this fund, these projects should have a similar scope to those projects within NIA and SIF, focussing on delivering strong future benefits to consumers but not pay back adequately from a company point of view to qualify for this fund (otherwise this could be funded like other general BAU innovations from totex allowances as part of BAU expenditure).

OVQ28 Do you agree with our proposal to reverse the SSMD position of removing the Discovery phase from SIF?

We support Ofgem's proposal to retain the Discovery phase within the Strategic Innovation Fund (SIF).

The Discovery phase provides a critical platform for early-stage research and development, enabling the exploration of innovative ideas at a formative stage. It plays a vital role in de-risking future investment, shaping more robust project proposals, and ensuring that only the most promising innovations progress to later stages of development and deployment.

Retaining the Discovery phase:

- Strengthens the innovation pipeline by supporting ideation and feasibility testing.
- Improves project quality and deliverability by enabling early refinement.
- Aligns with best practice in innovation funding across sectors.

OVQ29 Do you agree with our proposals to retain the core aspects of the SIF for RIIO-3?

Yes, we agree with Ofgem's proposal to retain the core aspects of the Strategic Innovation Fund (SIF) for RIIO-3.

OVQ30 Do you agree with our proposals for a more flexible approach to contribution rates to fund SIF projects?

We support the proposal to remove the compulsory contribution rate for more risky and high impact projects.

More generally, the original intent of networks making a 10% contribution into the strategic innovation funds (the Network Innovation Competition in RIIO-1 and the Strategic Innovation Fund in RIIO-2) was a refundable contribution that ensured networks had a financial interest in the success of compelling the innovation projects to time and budget.

This was modified during RIIO-1 to be a non-refundable contribution. However, the intention was always that the level of contributions should be lower where a project was not for the financial benefit of the funding party or project partner. (See: paragraph 4.14 and 4.15 of https://www.nationalgrid.com/document/340131/download).

More recent decisions have now looked to change the 10% default contribution and indeed the principle has started to be extended into other uncertainty mechanisms (such as the Net Zero and Small projects reopener).

We believe the purpose of contributions has become confused as instead of encouraging regulated networks to support wider societal benefit projects for the future (the stated intent of the innovation funds) it is now potentially acting as a barrier to funding. The example given in the DD is right if the network or partners were to gain future investment or return from the innovation, but the majority of SIF funded projects are for wider societal benefits such as reduction in leakage, encouragement of renewable resources. We believe Ofgem should be considering moving back to the original intent of the contribution that reflects the extent to which the project will benefit the funding party or project partners and should move to an upfront commitment that is returned if the project meets its aims. This, we believe, would deliver the intent to ensure there are no barriers to innovation and supporting greater collaboration between project partners.

We therefore would only support the option for increasing the contribution for less risky projects if this is aligned with the principle of refunding the contribution if the project meets its aims.

OVQ31 Do you agree with updating the SIF eligibility criteria and assessment process?

We support Ofgem's proposal to increase the focus on 'outcome-focused projects' and assessing which projects may deliver the greatest benefits. This is a positive and necessary evolution of the Strategic Innovation Fund, ensuring that funded projects are more clearly aligned with delivering tangible benefits for consumers and the energy system.

We would welcome the opportunity to engage with Ofgem on the development of the updated criteria and process. Our aim is to ensure that any changes:

- Maintain fairness and transparency
- Support both near-term and long-term value creation;
- Avoid unintended barriers to participation.

We look forward to contributing to this process.

OVQ32 Do you agree with our proposal to establish a direct pathway for transformative projects to seek Ofgem's support for funding?

We support the principle of establishing a direct pathway for transformative projects and look forward to contributing into the design of the process and the updated guidance document.

It is worth noting that we, and other networks, deliver multiple activities that drive wider societal benefits and returns that do not drive specific benefits to network investors directly (for example, our investors have funded the Cadent Foundation, a charity which supports customers in vulnerable situations and sustainability goals. Hence, we believe that this process is needed not because of a blockage around innovating for wider society, but to prioritise innovative ideas that are potentially transformative.

OVQ33 Do you agree on the need to clarify roles and responsibilities within the innovation ecosystem, and the factors that we should consider?

We recognise that the parties involved in innovation could be better coordinated. Using the terms from paragraph 10.50 of the Overview Document we agree that: events, challenge setting, data gathering and dissemination of learning are all areas that could be improved and more consistent and accessible to innovators and suppliers. Increased coordination of these aspects of the innovation ecosystem would be progressive, but we regard these as *improved structure, communications and consistency* rather than *clearer roles and responsibilities.*

If stakeholders are raising concerns about the complexity of engagement, it is appropriate to explore how the system can be improved, particularly for smaller organisations and early-stage innovators. We also note potential overlap with the proposed NIA advisory initiative, which could serve as a useful platform to support this change. We welcome further engagement with Ofgem and other stakeholders to explore how these things can be improved.

OVQ34 Do you agree with our approach to improving reporting of deployed SIF projects and lessons learned post-funding?

We agree in principle with Ofgem's approach to improving the reporting of deployed SIF projects and the capture of lessons learned.

However, we would welcome the opportunity to review and be consulted on the specific reporting requirements before they are finalised. It is important that any new obligations are proportionate, clearly defined, and aligned with the scale and nature of the project. As with the advisory service, overly burdensome or ambiguous requirements could risk diverting resources away from delivery and innovation.

OVQ35 Do you agree with our proposals for the Cyber Resilience re-opener?

We support the Cyber Resilience Re-opener in principle. However, we note that the proposed application window is currently set for April 2029, which may not provide sufficient time for Ofgem to assess submissions and make decisions ahead of the mid-period point in August/September 2029.

Given that the three-year Use-It-Or-Lose-It (UIOLI) allowances funding period concludes in 2029, we propose a compromise whereby the re-opener window is brought forward to the last quarter of 2028 (September to December). This would allow Ofgem to make timely decisions and provide greater certainty around funding for the second half of the RIIO-3 period, ensuring network operators can maintain and enhance cyber resilience in response to evolving threats.

OVQ36 Do you agree with our position of not changing the Digitalisation licence condition?

Yes, we agree with this proposal. We see the value in summarising our digitalisation approach through Digitalisation Strategy Action Plans (DSAPs) and the ability to easier drive collaboration with others in the energy sector through our respective DSAPs.

OVQ37 Do you agree with our proposed approach to the DSI licence condition?

We do not support the proposal to introduce the DSI Licence condition at this moment in time.

An introduction of a DSI licence condition is premature, given that none of the elements of the DSI are yet fully defined.

The Data Preparation Node and the technical elements that are required to enable exposing the Data Assets to the DSI (Data Catalogue, Data Mapping, Datastore, Integration, Monitoring and Schema Assurance) have only been recently discussed with NESO Project team at a conceptual level during one-off workshop aimed to gather the sector preferences. Until the requirements become more clearly defined it will not be possible to know how long it will take any party to develop the necessary functionality.

In addition, the licence condition would mandate licensees to adhere to the Trust Framework, when this Framework does not yet exist.

We suggest a licence condition is introduced only once this framework is in place.

OVQ38 Do you agree with our proposed design of the Digitalisation re-opener?

Yes, we agree in principle, but propose amendments to the following characteristics of the re-opener to better reflect the maturity and scale of developments:

Date of re-opener window: *no later than December 2027*

We foresee the DSI operationalisation as the most transformational milestone in sector digitalisation within the RIIO-3 period. The timelines suggest an intention to mandate the use of DSI in mid-2028. While the companies have received positive feedback in the DD for investments to connect to DSI, it is premature to assume that investment costs are sufficient to meet requirements that are not yet defined in detail.

We understand that the details of the DSI DPN mechanisms and Trust Framework components are going to be further worked on through MVP delivery which is scheduled for 2026.

We would welcome the opportunity to apply, if relevant, for additional funding and any technical gaps, that today are difficult to foresee, before we are mandated to use DSI for data sharing.

Materiality threshold: we suggest removing *the materiality threshold*

While it might have been appropriate to set out a materiality threshold in RIIO-ED2, in general, the levels of funding between electricity and gas for digitalisation are proportionally different. There is a risk that investment required for further digitalisation (namely in relation to the planned introduction of operational DSI and anticipated licence condition mandating the deployment of Data Preparation Node and adhere to the non-yet in existence Trust Framework) while being classified as policy change, might require additional investments (above the already proposed investments) that do not exceed the proposed threshold. This will leave gas distribution networks with no route to apply for additional funding required in order to comply with anticipated regulatory changes.

The best approach to manage this uncertainty would be to remove materiality thresholds in line with the approach proposed for cybersecurity.