Regulatory Financial Performance Reporting (RFPR) Commentary

RIIO-2

September 2025

Contents

Executive Summary

Overview

Our Regulatory Financial Performance Reporting ("RFPR") submission includes information for each of our four networks in line with the Regulatory Instructions and Guidance ("RIGs"). Both our RFPR submission and our Strategic Performance Overview ("SPO") address Cadent's regulatory performance and should be considered together. The SPO can be found on our Website and provides detail on our operational and financial performance.

Operational performance

We have delivered a step change in our operational performance over the RIIO-2 period, delivered on our targets and output commitments; and led the sector in many areas of performance. Highlights include:

- We are on track to meet all our five-year period output targets.
- We achieved a reward in Customer Satisfaction ("CSAT") in all our networks
- We also achieved a reward for Collaborative Streetworks in our North London (LN) network
- We have achieved a reward in North West (NW) network, Eastern (EN) network and West Midlands (WM) network for Shrinkage
- Across all of our networks we have not received any penalties for Complaints and Unplanned interruptions

Cadent's financial performance across RIIO-2 is set out in a period of economic volatility. Over the five year RIIO-GD2 period, we expect operational RORE, on average, to be 4.2%, below the allowed return of 5.1% at a Cadent level driven by our costs exceeding the allowances provided to deliver regulatory outputs.

The explanation of our cost performance is detailed in the SPO on our website. Key drivers of the difference between the allowed return and our expected returns include the increased scale of our investment programme to respond to network demands that were not funded ex ante or through uncertainty mechanisms, insufficient allowances set through the RIIO-2 price control process including lack of recognition of regional factors, a challenging ongoing efficiency level, and volatility in the macro-economic environment impacting input costs which have not been fully reflected in allowances.

Despite these challenges we have been successful in delivering strong efficiency and financial performance which is expected to see a real term bill reduction by the end of RIIO-2 compared to start of RIIO-1.

Corporate Governance and Financing Performance

Cadent is proud to uphold the highest standards of corporate governance, adhering to the Wates Corporate Governance Principles for Large Companies, alongside the robust protections afforded by our licence and the Companies Act. Our Board includes three Sufficiently Independent Directors, each bringing extensive sector experience and playing active roles both on the Board and across its committees.

We maintain credit ratings with all three major rating agencies—Fitch, S&P, and Moody's—achieving strong investment-grade ratings. This is supported in part by shareholders through the acquisition process who incurred an up-front cost to ensure that we benefit from the low cost of debt relative to the sector. These actions have enabled us to deliver significant operational performance improvements, investments into our asset health, and manage gearing in alignment with the regulatory model.

We ensure that dividend payments are made only after careful consideration of a broad range of factors, as detailed in this report. Cadent does not hold any loans with its parent company. Furthermore, we share financial value with our customers through substantial contributions to the Cadent Foundation —approximately £5 million annually — fully funded by our shareholders.

Our corporate structure is intentionally straightforward, with the vast majority of group revenues and operations focused on delivering against our licence obligations. We provide extensive disclosure on executive remuneration, with over ten pages of detail included in our Annual Report and Accounts ("ARA"). The ARA also offers stakeholders transparent insights into our financial and operational performance, corporate governance practices, and sustainability credentials.

Given the strength and transparency of our governance framework, we do not believe additional ring-fencing controls from Ofgem are necessary. Nonetheless, we remain committed to engaging constructively in any consultation process to ensure that the appropriate balance is achieved in the best interests of consumers.

Regarding the financing performance as measured through the RFPR methodology, as in previous years, Ofgem's methodology for calculating financing performance results in an artificially high outperformance being reported in this year's RFPR against the cost of debt allowance. This is driven by the timing of our debt refinancing in 2017 resulting in lower comparative cash interest costs. However, to achieve this saving, a significant one-off cost was incurred that needs to be reflected in ongoing performance. When combined with the high inflationary environment, this methodology creates an arithmetical performance gap as debt performance appears higher than methods that calculate performance over a longer period of time or that reflect the notional capital structure.

The remainder of the document provides further insight into our operational and financial performance.

Our Performance

Operational Performance

The context of our operational performance is provided in the Overview of this document which provides important information relative to our operational RORE. Across all of our networks on a consolidated basis, Return on Regulated Equity (RORE) for the RIIO-2 period, excluding financing and tax, is forecast to be 4.2% which is below the allowed return of 5.1% (CPIH, real).

The main driver of returns being lower than the allowed return on equity is higher Totex spend than the allowances provided by Ofgem. At a Cadent wide level we are forecasting an overspend of £384m (in 18/19 prices) (8%) over RIIO-2 with the West Midlands network expected to outperform, however our other networks are forecast to spend more than allowed, in part due to certain regional factors not being recognised through the RIIO-2 price control setting process. We continue to deliver our Business Plan, drive efficient performance, and lead the sector on our ambitious output commitments.

The main drivers of the Totex performance are described in the Executive summary and Strategic Performance Overview. We continue to actively mitigate and manage these cost pressures through our transformation programme and rigorous control over expenditure.

Despite facing these totex challenges, we are maintaining a significant contribution into our Cadent Foundation charity. This is funded by shareholders and as such is not shown in the regulatory financial performance reporting.

Across the Financial Output Delivery Incentives, we expect to earn incentive rewards that will contribute 0.2% RORE over the period, largely through our sector leading customer incentive performance driving improved customer satisfaction and reducing complaints. Further detailed information on our operational financial performance and outputs is covered from Page 9 of the SPO.

Financing Performance

The price control for RIIO-2 is set in a period of increasing interest rates and high inflation. The allowed return on equity at 5.1% is below current market-based levels - our RIIO-3 Business Plan and RIIO-3 Draft Determination response (both available on our website) provide details of how this base level of return should increase.

The RFPR follows Ofgem's template to calculate financing and tax performance relative to the allowances. As noted in previous years, this methodology for calculating financing performance results in an overstated performance being reported against the cost of debt allowance. The two drivers of this are:

- The timing of our debt refinancing in 2017 resulting in lower comparative cash interest costs. However, to achieve this saving, a significant one-off cost was incurred that needs to be reflected in ongoing performance; and
- The RFPR methodology when combined with the current high inflationary environment creates an arithmetical performance gap driven by the methodology not reflecting notional or actual capital structures.

Timing of debt refinancing

As previously noted, and as recognised through the RIIO-2 and Draft Determination for RIIO-3 methodology, Cadent currently benefits from comparatively low relative cash cost of embedded debt as our debt was raised and refinanced largely in a single financial year when interest rates were low. As a result, we outperform the trailing Iboxx index used for allowance setting. To achieve this comparative low cost of debt significant one-off cash costs were incurred in FY2017. We have included in our analysis below the impact of incurring these one-off costs as this provides a fairer reflection of the true economic cost of our debt. However, currently the regulatory instructions and guidance do not support reporting these costs in the RFPR tables.

RFPR methodology in relation to inflation

The methodology creates an arithmetical performance gap by skewing debt performance to appear higher compared to methods that calculate performance over a longer period of time or reflect the notional capital structure.

The RFPR methodology does not take into account actual or notional company capital structures, particularly the quantum of inflation linked debt typically used by networks including Cadent to manage inflation risk. The spreadsheet measures performance assuming all of the debt within the capital structure is 100% linked to outturn inflation for the year – CPIH specifically. This is not aligned to actual structures within the sector or the notional company used by Ofgem in setting the price control where only 30% of the debt is linked to outturn CPIH. This mismatch, where the models attempt to reflect the economic form of interest rates rather than the cash cost, results in distortions in the performance metrics when considering short time periods, rather than the long time periods the debt is issued over.

This has the effect of presenting under-performance in years where inflation in a single year is below the long run average as was the case in RIIO-1 and outperformance of the cost of debt allowance when inflation is higher than long run averages. As an example, in the last year of RIIO-1 when RPI inflation was 1.2%, we saw underperformance when presented through the RFPR calculation methodology. We issue debt for long periods of time, historically this has often been in excess of 10 years, and therefore during the tenor of these instruments, there will be periods where inflation is above or below the long run position.

We remain very focused on how inflation is impacting our customers particularly in light of the continued cost of living challenges and note the changes anticipated for RIIO-3 that adjust the approach to inflation in setting revenues. We have an industry leading customer vulnerability strategy which targets support to the most vulnerable and we have detailed the significant social benefits we have delivered in our recent Social Impact report and in our Vulnerability and Carbon Monoxide Allowance Annual report. As noted above, we are also investing profits directly back into the communities we serve though the Cadent Foundation, and have advocated for positions, through our RIIO-3 Business Plan, that mitigate further bill increases.

Chart 1: RIIO-2 RORE from Financing and tax

	RIIO-GD1	RIIO-GD2					
% RORE from Finance and tax performance (Notional Company)	**FY 20/21 Actual**	**FY 21/22 Actual**	**FY 22/23 Actual**	**FY 23/24 Actual**	**FY 24/25 Actual**	**FY 25/26 Forecast**	**RIIO-GD2 Average**
Excluding adjustment to reflect the true economic cost of debt & Tax	0.0%	4.5%	8.1%	6.1%	3.7%	2.6%	5.0%
Including adjustment to reflect the true economic cost of debt & Tax	-2.6%	2.8%	6.6%	5.2%	2.8%	1.8%	3.8%
Variance	2.6%	1.8%	1.5%	0.9%	0.9%	0.8%	1.2%
Memo: Inflation (RPI / CPIH)	*1.2%*	*4.5%*	*8.8%*	*5.5%*	*3.2%*	*2.9%*	

It is noted that there have been a number of changes in Return on Regulatory Equity ("RORE") reporting relative to RIIO-1, some of which are listed below. Consequently, the range of returns is lower and more constrained around the base level of equity return.

- The price index has changed from RPI to CPIH. All values are presented in real terms excluding the impact of this inflation index; as such, if the RIIO-1 values were to be re-presented relative to CPIH they would be higher by the difference between RPI and CPIH.
- The allowed return on equity is significantly lower. In RIIO-1 the baseline return to equity was 6.7% (RPI based) with 5.1% on average over RIIO-2. We provide evidence in our RIIO-3 Business Plan and Draft Determination response as to how this needs to increase in RIIO-3 to reflect current market benchmarks.
- Opportunity for over and under performance is much more constrained in RIIO-2 with Ofgem noting that in RIIO-1 strong performing networks could deliver double digit returns. In RIIO-2 this is significantly reduced as a result of a number of new mechanisms which reduced incentive properties.
- Some of these reduced incentive properties include sharing factors which are now set to 50% sharing between customers and networks (compared to 63% in RIIO-1), and a reduced number and potential value from Financial Output Delivery Incentives ("ODI-F").

Corporate Governance

Executive remuneration

Our executive directors' pay is explained in detail in our Annual Reports and Accounts within the remuneration committee section from page 91-103.

As always, there is focus to connect strong performance to remuneration for the benefit of all of our stakeholders. This includes ensuring that incentives drive efficiency and provide value for money for our customers, as well as delivering excellent customer service and taking a lead across sustainability and social matters, in particular by providing practical support to customers in vulnerable situations. This has ensured continued increases in customer satisfaction and improved complaints handling, along with strong delivery against our fuel poor network investment scheme and positive social return on investment for our customers.

The impact of the cost of living challenge on our customers has made it more important than ever before for us to ensure that we are tackling fuel poverty. We play a leading role in shaping the conversation on the role that a gas network business could and should play. We have reached more than one million households in our regions through the provision of energy efficiency advice, income and energy management support and a range of in-home (beyond the meter) tailored interventions to make energy more affordable for our customers. This has included the establishment of 350 regional Centres for Warmth and a refocus of the Cadent Foundation funding directly to address affordability and fuel poverty related schemes.

In addition to ensuring strong operational delivery of a high-quality service, there is also a strong focus on safety engagement and outcomes, along with ensuring that remuneration is closely linked to sustainability; through reducing waste, reducing carbon emissions and in the important role that Cadent is playing in shaping the country's future energy system transition to net zero.

The remuneration committee has also taken careful consideration of the broader landscape when assessing remuneration outcomes. This includes the high wholesale gas prices, high inflation and cost of living challenge.

Dividend policy

Information relating to our dividends is reported through our Annual Reports and Accounts.

Cadent's dividend policy is to have an appropriate distribution after having considered the forward committed cash requirements of the business to support our investment programmes, including the Cadent Foundation, and managing an appropriate level of gearing, as well as considering wider macroeconomic factors and the broader performance of the business relative to a range of regulatory and customer performance metrics.

This policy ensures that we take into account wider macro-economic factors, such as the uncertainty created by the COVID-19 pandemic when we had the flexibility not to pay a dividend in the year to March 2021. This policy is welcomed by rating agencies supporting our strong financing performance.

When considering dividends, we assess not just a single year but the cumulative performance and payments over recent years and a forward assessment into future years. This analysis shows that over the last 4 years, we have paid dividends that are equivalent to 5.2% return on regulated equity. This benchmarks to comparator networks and is aligned to the allowed return in the comparable period. Our RIIO-3 Draft Determination response provides details of market benchmarks in document "Annex FA3".

Broader considerations

Our policy is based on our belief that in order to deliver successful outcomes, there should be a balanced approach to meet the requirements of all our stakeholders. This means:

- customers benefitting from value for money and better services;
- supporting households through the shareholder funded Cadent Foundation;
- enhancing the environment in which we operate;
- employees being fairly rewarded for their hard work; and
- our investors earning a reasonable return on the equity they have invested in the business. This investment is critical for ensuring the efficient and economic operation of our network today and the investment requirements of the future.

We share outperformance with our customers through delivering efficiencies that result in lower bills; with our employees through responsible incentive-based bonuses; and with investors through sustainable dividends. And we've been able to do this while delivering on our environmental targets, maintaining appropriate gearing and delivering strong financial resilience.

The Board also reviews the company's performance around employees and executive pay. As noted above, Executive pay disclosures are significantly enhanced relative to sector standards supported by a strong remuneration committee that target societal benefits such as performance on customer and sustainability measures.

We also have transparent and low risk policies in relation to how we interact with the tax authorities.

Legal and Regulatory Requirements

We provide further information below regarding the existing protections that exist to ensure the highest standards of governance relative to dividend decisions and payments.

Licence Requirements

In addition to statutory responsibilities of Directors relative to the Companies Act, as a regulated business we have additional requirements governed by our licence. We summarise these below to provide transparency to stakeholders.

Before a dividend can be recommended or declared, Cadent must provide Ofgem with a certificate (that has been approved by a resolution of the board of directors) to confirm that, after making enquiries, Cadent is satisfied that: (1) it is in compliance in all material respects with key ring-fencing licence conditions; and (2) the making of a distribution will not (alone or together with other circumstances) cause it to be in material breach of any of those ring fencing licence conditions in the future. A summary of the relevant licence conditions is set out in table 1 below.

Table 1: Licence Conditions

Obligation	Overview of requirement
Standard Special Condition A26 (Provision of Information to the Authority)	Requirement to comply with formal information requests issued under this condition and to obtain an undertaking from anyone who is an ultimate controller of Cadent confirming that they will also provide any information required to enable Cadent to respond to an information request.
Standard Special Condition A36 (Restriction on Activity and Financial Ring-Fencing)	Restricts the activities that the licensee can undertake, including investment activities. Requires that a licensee has in force a system of treasury management operations internal controls that complies with best corporate governance practice.
Standard Special Condition A37 (Availability of Resources)	There is an overarching obligation to act in a manner that ensures that Cadent has sufficient resources (e.g. financial, management, operational) to properly and efficiently carry on its core transportation business and comply with all relevant obligations under the licence, the Gas Act 1986 and any other relevant statutory obligations. Cadent must provide a number of board approved certificates to Ofgem each year confirming that it has sufficient resources to operate the transportation business for the next 12 months. Cadent must provide an independent auditor's report to support such certificates. A certificate is also required before the recommendation or declaration of dividends.
Standard Condition 45 (Undertaking from Ultimate Controller)	An obligation on Cadent to obtain an undertaking from the ultimate controllers of the company that they will refrain from action which could cause Cadent to breach its licence condition or any obligations under the Gas Act 1986.
Standard Special Condition A38 (Credit Rating of the Licensee)	Licensee must use reasonable endeavours to maintain an investment grade issuer credit rating. Includes financial resilience reporting subject to credit rating.
Standard Special Conditions A39 (Indebtedness)	Restricts/places conditions around: indebtedness; transfers of assets/rights/sums to associated companies; cross-default obligations.

The Board seek positive assurance from the Executive Committee that all activities conducted by the organisation are compliant with the above licence requirements. Our internal assurance teams cascade detailed surveys through the organisation providing independent review to ensure that all requirements are met.

Other protections to consumers

Our Board's philosophy is to uphold the highest standards of corporate governance appropriate to the essential public service Cadent provides and the regulatory framework that Cadent operates within. Pursuant to the Companies (Miscellaneous Reporting) Regulations 2018, the company continues to apply the Wates Corporate Governance Principles for Large Private Companies.

Our Group structure and financial covenants provide protection to the level of debt that can be held in Cadent relative to the size of the asset base (Regulated Asset Value – RAV) improving financial resilience.

The company ensures compliance with Companies Act 2006 and ensures it has sufficient distributable reserves at the time of paying a dividend.

Dividends paid

During the year to March 2025, we paid dividends totalling £415 million (2024: £310 million) wholly attributable to the regulated business as noted in our Annual Report and Accounts ("ARA"). Ofgem, our Economic Regulator is informed of dividend decisions prior to payment.

Dividend payments of £207.5m were made in September 2024 and January 2025 totalling £415m, following the Board meetings where the Directors considered a range of factors including those listed below prior to approval of the dividend. All but one member of the Board (as listed in our Annual Report and Accounts) were in attendance at each meeting (September 2024 and January 2025 Board) where a dividend was approved.

In addition to the licence conditions noted above, prior to making dividend payments we also consider the following items:

Table 2: Considerations when making Dividend Payments

Consideration	Summary
Customer and community commitments	We remained very focused on how inflation impacts our customers particularly in light of the ongoing cost of living crisis. We have a comprehensive customer vulnerability strategy which targets support to the most vulnerable and we have detailed the significant social benefits we have delivered in our Social Impact report and in our Vulnerability and Carbon Monoxide Allowance Annual report and showcase. We have been proactive in offering direct customer financial support where possible. This includes successfully amending, with support from Ofgem, enhancements to the way funds from the fuel poor network extension scheme could be deployed to support our customers with fuel bank vouchers or home energy improvements. We have worked with other distribution Networks and advisors to reduce the rateable value of our assets reducing future bills in relation to business rates. We continue to support our communities through reinvesting profits into the Cadent Foundation offering at least 1% of profit to the charitable foundation; additionally, our wider tangible actions to support customer and communities and beyond can be summarised as: • Our Force for Good Strategy; Easier Warmth; Fairer Opportunity; Greener Society; • We have signed up to a Trust Charter supported and encouraged by customers; • We have our Critical Friends Panel representing a cross section of our stakeholders; • We were committed to the Customer Engagement Group voice for our RIIO 2 plan; • We have launched the Warm Homes Network, a new initiative part of our ongoing commitment to tackling fuel poverty; • We have established 350 Centres for Warmth which have delivered support to thousands of customers most impacted by the cost-of-living crisis; • Our employees volunteered over 9,400 hours to help our communities; • Developed an industry leading approach to supporting customers in vulnerable situations; and

	• We are committed to being an open and transparent company and publishing data and policies Another example of the high-performance nature of the business was evidenced by the exceptional customer feedback received throughout the water ingress incident in St Albans which built on our sector leading response to the incident in Stannington in the previous year. Despite the challenges caused by the volume of water in our pipes, we mobilised resources to successfully restore supply to all properties affected. Throughout the incident we worked closely with Ofgem, the Council, and Affinity Water to ensure the most vulnerable customers were prioritised. In addition, our strong commitment to improving performance was evidenced through our customer scores – all four networks were delivering at or above their prior year scores. This applies to our Emergency response and repair scores, connections work and planned supply interruption scores.
Regulatory performance for RIIO-2	As noted in our July 2025 RRP and Strategic Performance Overview (SPO) our networks were delivering strong operational performance, and we remain on target to meet all our five-year period measures and are performing well against the financial output delivery incentives. Relative to other GDNs we are delivering very strong comparable performance.
Legal and regulatory requirement	Through this review, Cadent Gas was compliant with all legal and regulatory requirements.
Comparisons to recent dividends and comparator networks	Based on comparator networks and external benchmark analysis, the Cadent dividend is aligned to market expectations.
Comparisons to allowed equity returns	The average dividend yield for the 5 years ending 24/25 of 5.2% was below allowed returns for the same period, supporting a reasonable level of dividend was proposed. Cadent's return are considered in light of the shareholder support for the low cost of debt at the time of separation from National Grid.

Shareholder loans

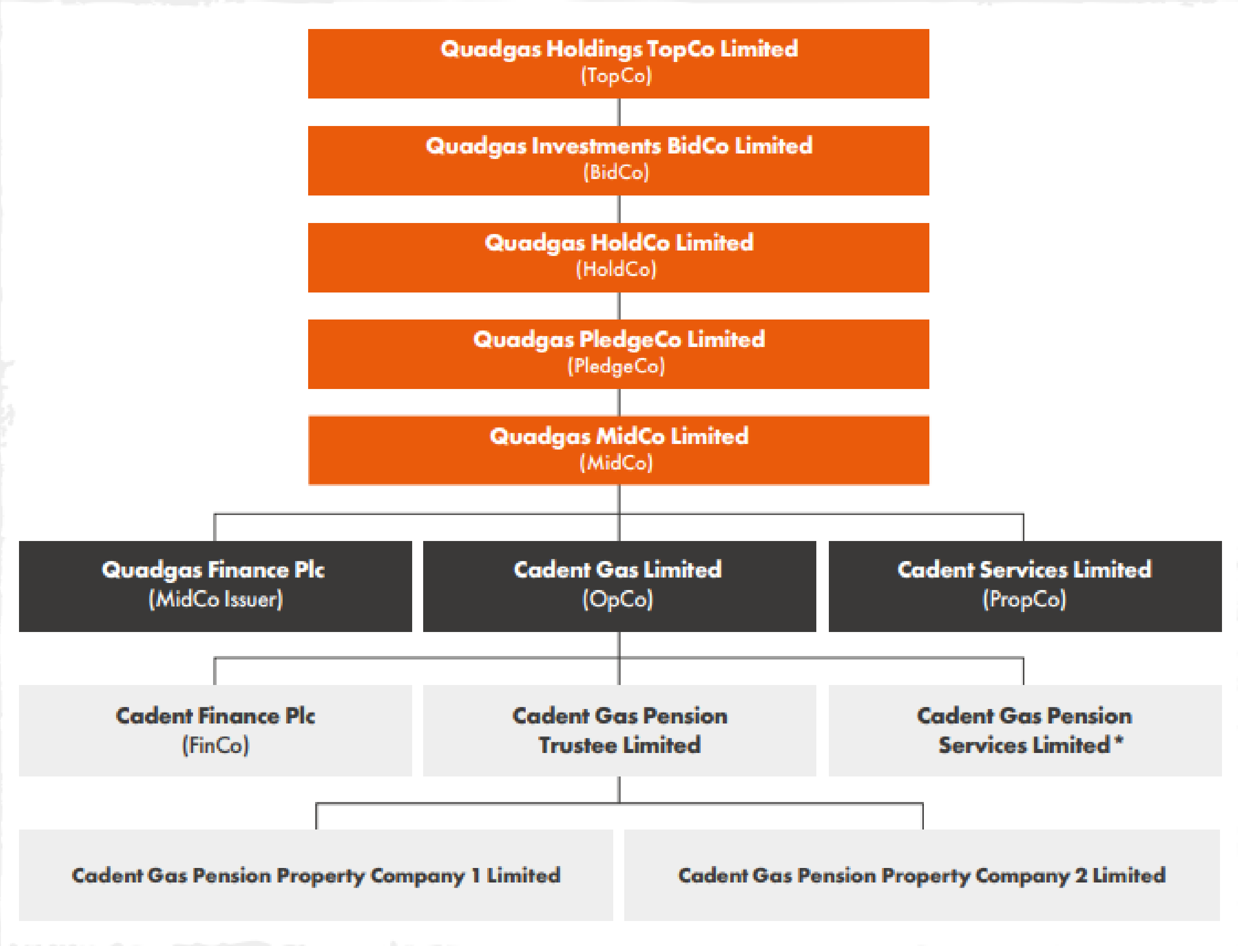
Cadent does not have any loans payable to its sole shareholder Quadgas MidCo Limited and as such, the Dividend paid is equal to the total distribution from the Company. There are shareholder loans in the wider group outside of the regulated entity. The dividends were used to service debt and cover ancillary costs in other group entities.

Corporate Structure

Our Corporate Structure is explained in detail in our Annual Reports and Accounts within Corporate Governance section, on page 67. All entities are 100% owned as per the chart below.

Chart 2: Ownership Structure

The ultimate parent company of the Group is Quadgas Holdings TopCo Limited (TopCo). The chart below sets out the ownership structure of the companies within our Group as at 31 March 2025.



* Dissolved 7 June 2025.

Our owners

The Quadgas Group is owned by a consortium of investors (the 'shareholders) who hold shares in Quadgas Holdings TopCo Limited.

Shareholders' Agreement

The company is a party to a private agreement between the shareholders of TopCo (the 'Shareholders' Agreement), which governs how the shareholders manage their investment in the Quadgas Group. This includes a schedule of matters reserved to the TopCo shareholders and to the TopCo Board of Directors, as well as rights in relation to the appointment and removal of Directors of the company and procedural provisions relating to the administration of meetings. The Board operates within the provisions of this agreement and seeks to ensure that its requirements are met at all times.

Table Overview

1. Return on Regulated Equity (RoRE)

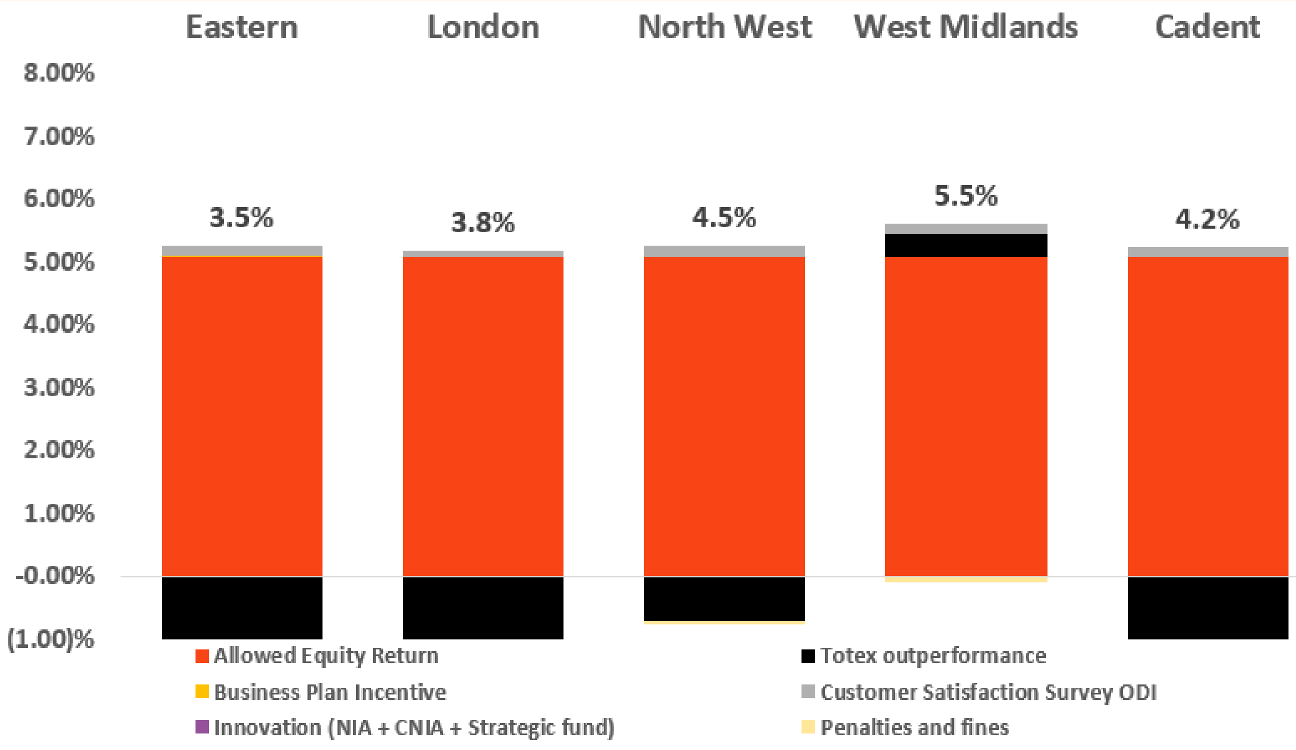
The RORE tab within the RFPR submission calculates the Return on Regulated Equity based on both notional gearing and actual gearing, as well as showing the monetary value of performance for each year of RIIO-2 in constant prices.

The operational RORE is split by network in the table below:

Chart 3: 5 Year Average RORE Performance by Network

5 - Year Operational RORE					
	EN	**LN**	**NW**	**WM**	**Cadent**
Allowed Return	5.1%	5.1%	5.1%	5.1%	**5.1%**
Totex	(1.7)%	(1.3)%	(0.7)%	0.4%	**(1.0)%**
BP Incentive	0.0%	(0.0)%	(0.0)%	(0.0)%	**0.0%**
Financial ODIs	0.2%	0.2%	0.2%	0.2%	**0.2%**
NIA Funding	(0.0)%	(0.0)%	(0.0)%	(0.0)%	**(0.0)%**
Fines & Penalties	(0.1)%	(0.1)%	(0.0)%	(0.1)%	**(0.1)%**
Operational RORE	**3.5%**	**3.8%**	**4.5%**	**5.5%**	**4.2%**

Chart 4: 5 Year Average Operational RORE Performance by Network



Across all of our networks on a consolidated basis, Return on Regulated Equity (RORE) for the RIIO-2 period, excluding financing and tax, is forecast to be 4.2% which is below the allowed return of 5.1% (CPIH, real). Key drivers include the increased scale of our investment programme to respond to network demands that were not funded ex ante or through uncertainty mechanisms, insufficient allowances set through the RIIO-2 price control process including lack of recognition of regional factors, a challenging ongoing efficiency level, and volatility in the macro-economic environment impacting input costs which have not been fully reflected in allowances. We provide details on performance on the individual RFPR tables below.

2. Reconciliation to Revenue and Profit

This table reconciles the collected revenue reported within the RRP to the Annual Report and Accounts. Consequently, the data is sourced from the RRP and the Annual Report and Accounts.

In addition, specific procedures are completed by a third party to provide assurance over collected income (Agreed Upon Procedures) and reported revenues (external audit).

As we report within our statutory accounts at a Cadent level, whilst reporting under RRP as four networks, a reconciling item is required under each network submission to bring in the revenues from the other three networks in order to reconcile back to a Cadent total.

For details of revenues in RIIO-2 please refer to our SPO on Pages 7&8. This also contains details of customer bills over time and how Cadent has delivered on-going efficiencies for customers driving down bills in real terms over the course of RIIO-2.

For details of forecast revenues, further information can be found in the Price Control Financial Model ("PCFM"). This model was published by Ofgem in January 2025 and shows expected revenues over the remaining years of RIIO-2.

3. Totex Reconciliation & Performance

3.1. Totex performance

The tables below show the Totex performance by network projected out for the 5 years of the price control.

Chart 5: Totex Forecast by Network relative to allowances

	Actual				Forecast			
Cadent	**FY 21/22**	**FY 22/23**	**FY 23/24**	**FY 24/25**	**FY 25/26**	**Total**	**Allowed**	**Variance**
Opex	383	412	421	443	474	2,134	1,968	(166)
Repex	440	467	495	471	443	2,316	2,198	(119)
Capex	158	190	217	173	209	947	846	(100)
Totex	**981**	**1,069**	**1,132**	**1,088**	**1,126**	**5,396**	**5,012**	**(384)**
Allowance	1,034	1,012	989	982	995	5,012		
Out/ (Under) Performance	**53**	**(57)**	**(143)**	**(106)**	**(131)**	**(384)**		
Cumulative Performance	53	(4)	(147)	(253)	(384)			

	Actual				Forecast			
Eastern	**FY 21/22**	**FY 22/23**	**FY 23/24**	**FY 24/25**	**FY 25/26**	**Total**	**Allowed**	**Variance**
Opex	134	147	143	151	165	741	644	(98)
Repex	129	154	158	150	148	739	685	(54)
Capex	70	72	86	73	95	395	323	(72)
Totex	**333**	**373**	**387**	**374**	**408**	**1,875**	**1,652**	**(223)**
Allowance	342	329	324	330	327	1,652		
Out/ (Under) Performance	**9**	**(44)**	**(63)**	**(44)**	**(81)**	**(223)**		
Cumulative Performance	9	(35)	(98)	(142)	(223)			

London	Actual			Forecast				
	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	Total	Allowed	Variance
Opex	97	102	110	114	120	543	519	(24)
Repex	130	141	161	153	126	711	625	(86)
Capex	27	37	35	35	41	176	162	(14)
Totex	**254**	**280**	**305**	**302**	**287**	**1,429**	**1,307**	**(122)**
Allowance	271	266	260	254	255	1,307		
Out/ (Under) Performance	**17**	**(14)**	**(45)**	**(48)**	**(32)**	**(122)**		
Cumulative Performance	17	3	(42)	(90)	(122)			

North West	Actual			Forecast				
	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	Total	Allowed	Variance
Opex	90	98	98	105	112	502	449	(53)
Repex	105	98	100	95	96	495	500	5
Capex	40	49	62	35	43	230	213	(17)
Totex	**235**	**245**	**261**	**235**	**252**	**1,228**	**1,163**	**(65)**
Allowance	238	237	229	223	236	1,163		
Out/ (Under) Performance	**3**	**(8)**	**(31)**	**(12)**	**(16)**	**(65)**		
Cumulative Performance	3	(5)	(37)	(49)	(65)			

West Midlands	Actual			Forecast				
	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	Total	Allowed	Variance
Opex	62	66	69	74	78	348	356	8
Repex	76	74	76	73	72	371	387	16
Capex	21	32	34	30	29	146	148	2
Totex	**159**	**171**	**179**	**177**	**179**	**865**	**891**	**26**
Allowance	184	179	176	175	177	891		
Out/ (Under) Performance	**25**	**8**	**(4)**	**(2)**	**(1)**	**26**		
Cumulative Performance	25	33	30	27	26			

So far in RIIO-2 whilst delivering strong performance against our outputs, we have overspent our Totex allowances by £253m (6%) cumulatively at a Cadent overall level. During 2024/25 we overspent our Totex allowances by £106m at a Cadent level after our capital investment programme increased further in scale, but allowances reduced. As mentioned above this is coupled with additional inflationary and market pressures above allowances which have impacted on the cost base.

For Controllable Opex spend, the prolonged period of higher inflation alongside broadly flat workload, rather than declining as predicted, has resulted in additional cost pressures and an overspend in 2024/25 of £61m (16%). Higher spend on IT projects within Business Support and Work Management costs were the main drivers of the expenditure growth, in addition to costs in response to incidents caused by 3rd parties in Eastern and North West, partially offset by lower Work Execution costs. Despite this challenging backdrop, delivering in line with the 2024/25 forecast has put us in a strong position as we enter the final year of the RIIO-2 price control. We do, however, expect further cost increases in 2025/26 driven by the cost of works in relation to Cyber Assessment Framework as we continue to increase investment in compliance with new legislation and further cost pressures. Consequently, we are now forecasting that the challenging cost environment and flat workload will continue over the remaining year, and against a backdrop of reducing allowances, we expect Controllable Opex costs to exceed allowances by 8% over the five-year period.

The 5-year RIIO-2 Capex spend of £947m is a decrease of £34m in comparison to the prior year RRP forecast and we are now forecasting that we will overspend Capex by £100m. This is due to the investment required in relation to governor assets to comply with HSE standards, cost pressures above allowances in relation to vehicles and streetworks, and supply chain pressure building costs for major capital programmes. Within our capital works, we are seeing cost pressures across all activities driven by the price of materials, supply chain availability and the complexity of the work. This is offset in part by the change in classification of IT spend (Software as a Service) that is now included within Controllable Opex in accordance with Accounting Standards.

Our investment in Repex totalled £471m in 2024/25, £45m higher than allowances, but £24m lower than the previous year. This is due to our efforts to drive efficiencies and successfully reduce unit rates for all work types across all Networks, delivering a comparable workload volume to 2023/24. Overall, there are a number of factors that contribute towards our Repex spend position compared to allowances that can be summarised as follows:

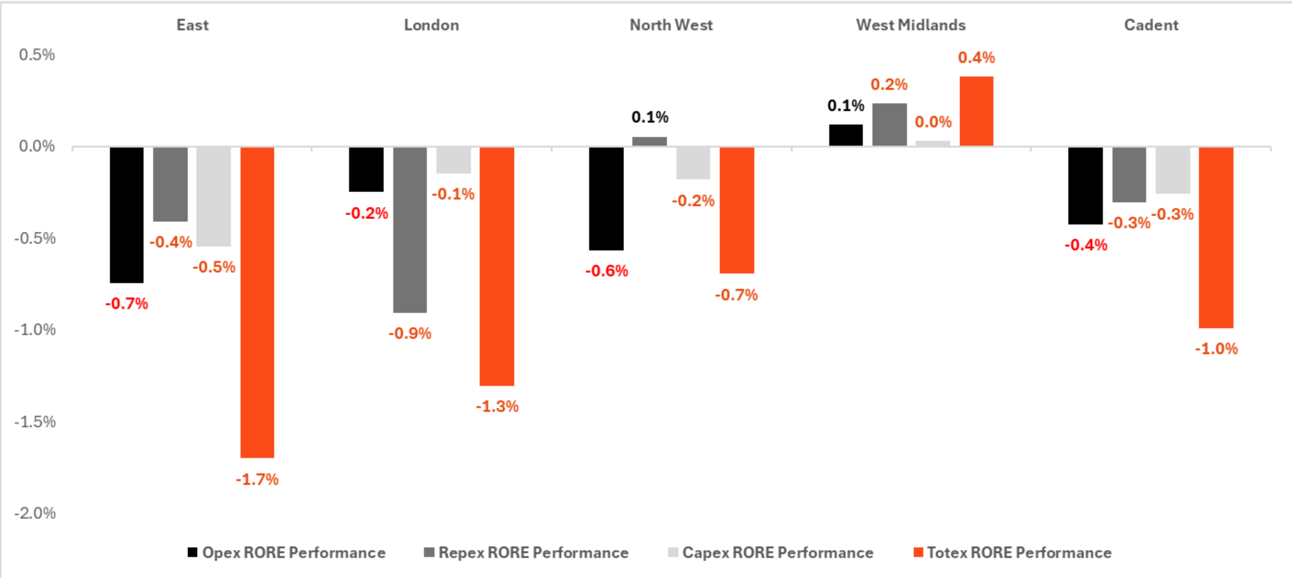
- Stretching assumptions used in setting price control allowances, such as:
  - Use of the 85th percentile in cost assessment benchmarking; and
  - Use of a stretching ongoing efficiency assumption,

  which placed further pressure on our cost allowances than the significant efficiencies already built into our RIIO-2 Business Plan.

- Input cost pressures beyond those compensated for through allowances, including the competitive market for resources driving up labour rates, particularly impacting our London and Eastern networks which show expenditure being greater than allowances, and higher costs of raw materials and ancillary costs related to working in the road e.g. traffic management and reinstatement.

The chart below shows the expected over / (under) performance relative to Totex allowances presented in RORE terms. This shows that the level of outperformance and underperformance is expected to be constrained around the baseline of allowed returns.

Chart 6: Totex over / (under) performance relative to allowances, RIIO-2 5-year average



3.2. Enduring Value

We have not identified any items that could be classified as an Enduring Value adjustment.

4. Incentives & Other Revenue Allowances

Overview

Financial Output Delivery Incentives ("ODI-F") are an important component of the RIIO price control framework and incentivise network companies to drive continuous performance improvements relevant to customers.

In RIIO-2, there is no time lag between earning incentives and recognising the allowed income for them. The forecast completed in this RFPR is used to generate future revenues with true ups relative to actual performance over time.

For detailed analysis of our output performance please refer to Page 16 of the SPO. We have ambitious customer plans that results in a forecast improvement in Customer Service scores over RIIO-2. This is the primary driver of increasing RORE over the RIIO-2 period from incentives.

There is less opportunity to drive outperformance of the regulated return from incentives in RIIO-2 relative to RIIO-1. This comes from both the incentive reward (i.e., the amount that can be earned) reducing and from fewer incentives available to networks. However, following our sector leading customer incentive performance driving improved customer satisfaction and reducing complaints, we are on track to earn incentive rewards that will contribute a 0.2% RORE over the period, through Financial Output Delivery across the RIIO-2 framework.

Customer Satisfaction Survey ("CSAT")

We have continued to make significant CSAT improvements in 2024/25 achieving an average score of 9.4 out of 10 (0.1 increase in score vs. prior year), representing our highest ever score since the introduction of the incentive at the start of RIIO-1. We are particularly proud of our performance in our Connections service where we expect our networks to be positioned as the leading performers in the sector.

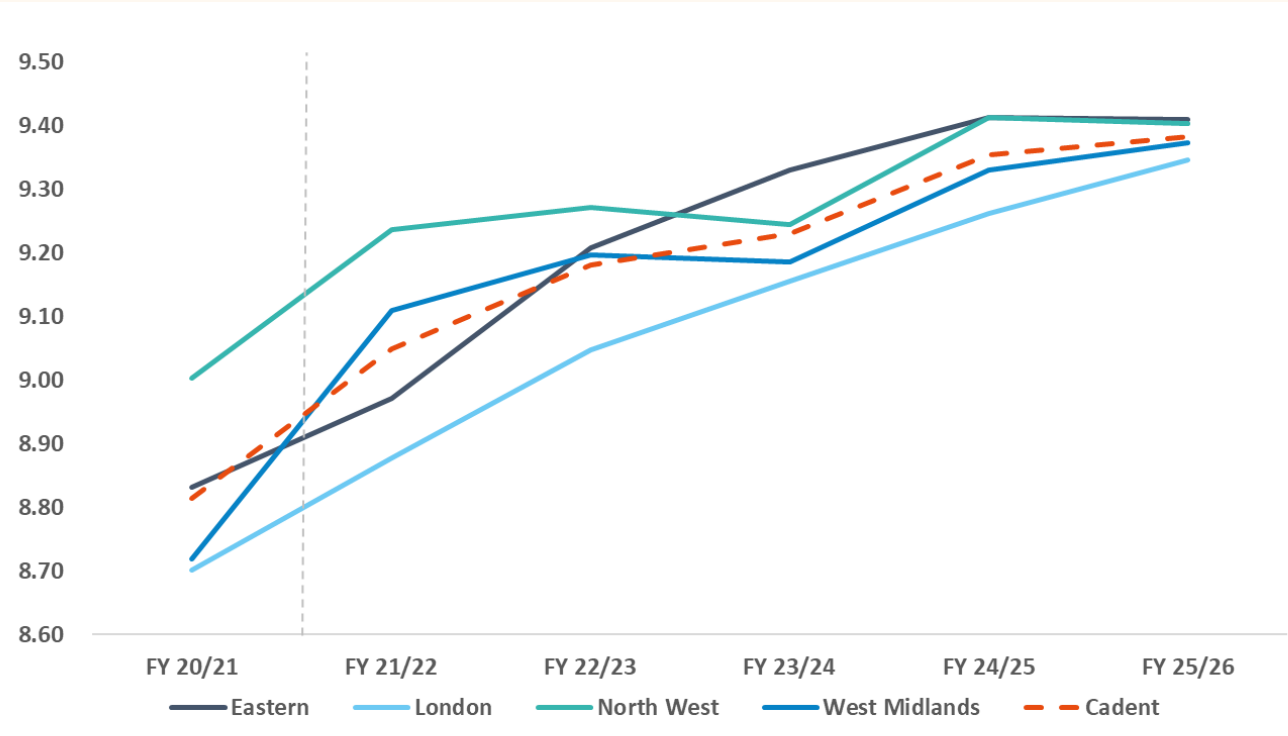
More information on our CSAT performance and the breakdown by component part and network can be found in our SPO document, Page 26.

Chart 7: CSAT improvement relative to FY24/25

Network	23/24	24/25	YoY
EN	9.33	9.41	0.08
LN	9.16	9.26	0.10
NW	9.25	9.41	0.16
WM	9.19	9.33	0.14
Cadent	9.23	9.35	0.12

Our ambition has not stopped, and the chart below shows our planned improvement in customer scores over RIIO-2 with all networks expected to deliver performance improvements over time.

Chart 8: Forecast CSAT improvement over remainder of RIIO-2



Other Output Delivery Incentives

There is potential for reward or penalty through Shrinkage Management, for reward through delivery of Collaborative Streetwork projects (only in Eastern, North West and West Midland networks), and mitigation of penalty through performance against Unplanned Interruptions and the Complaints Metric.

Shrinkage Management is key to help us in tackling climate change and improving the environment. See Pages 41-44 of our SPO for more information on our Shrinkage performance and strategies.

Collaborative Streetworks encourages collaboration between utilities and local authorities to minimise disruption and was introduced in RIIO-2 for London-based networks. We have delivered 7 projects in our London network reducing disruption by 115 days. Across all of our collaboration projects delivered, including those that did not qualify for the incentive, we have achieved 700 days of avoided disruption. Whilst there is a fixed incentive reward for each project delivered, the real value each project is delivering to customers and the wider community is much greater and this needs to be reflected when the incentive is updated or re-calibrated. Further details are provided on Pages 33-34 of our SPO.

Cadent incurred no penalties on Unplanned Interruptions and Complaints metrics in 24/25 and forecasts the same for the remainder of RIIO-2 with further details shown on Pages 29-31 of the SPO.

Other Revenue Allowances

Other Revenue allowances (ORAs) relate to Network Innovation Allowance, Carry-over Network Innovation Allowance from RIIO-1 and Strategic Innovation Fund. The company contributes 10% towards allowed projects reducing RORE performance. Vulnerability and Carbon Monoxide allowances are also included within ORAs, however this is 100% funded on a use it or lose it basis (UIOLI).

5. Financing and Net Debt Position

As previously explained in the Financial Performance section of this document, we benefit from a comparatively low cash cost of debt. This is as a result of significant capital structure changes to create a separate Gas Distribution business (the “segmentation”). The low cost of debt results in an outperformance of the allowed funding for debt and an increase in reported RORE; however, this excludes the one-off costs associated with the segmentation. If the repayment of legacy National Grid debt had not happened, then the current cost of debt for the Gas Distribution business would be higher over the medium term.

Cost of debt allowances are set assuming debt is raised evenly over a trailing average period from 10-14 years to fund investment in the network over time. However, the majority of our current debt portfolio was priced largely in a single year (FY17) due to the segmentation when market rates were low.

The intent of the segmentation was to transfer National Grid’s debt across to Cadent. However, due to the complexity and cost of this process, the novation of all debt requirements was not possible. As such, expensive National Grid legacy debt was repaid and new cheaper debt was issued at the low prevailing market rates. However, significant costs were incurred in order to repay the legacy debt and secure a much lower ongoing cost of debt effectively accelerating future cash payments.

Bondholders and banks were paid the difference between the cost of the expensive legacy debt and the market rate of new debt as compensation. These one-off costs incurred at various points during the segmentation are recorded in the statutory accounts of various entities, including the 2017 statutory accounts of National Grid Electricity Transmission plc (‘NGET’) and National Grid Gas plc (‘NGG’), as well as in the 2017 regulatory accounts for Cadent.

Current Ofgem RIGs do not support the adjustment to be included in reported results and as such we are providing RFPR tables with and without the adjustment. We firmly believe adjusting the cost of reported debt to reflect the true economic cost provides stakeholders with a more meaningful view on our performance.

RORE including the impact of financing and tax shows 3.8% outperformance including the adjustment to reflect the true economic cost of our debt (5.0% excluding this adjustment).

Ofgem has completed cross checks and note in footnote 11 of their publication “RIIO-2 Sector Methodology Decision – Finance” that the cross checks support the total quantum of the adjustment; and the RIIO-3 Sector

Specific Methodology Decision confirms that these additional costs will be accounted for when setting the sector average.

In addition to the above, we also note that the current high level of inflation influences the cost of debt and our (and all GDNs) performance against the respective allowance. The result of inflation over RIIO-2 can be seen in chart 1 within the Financial Performance section of this paper. As noted in this section the current Ofgem methodology skews debt performance to appear higher compared to calculating performance over a long period of time or reflecting the notional capital structure.

6. Regulatory Asset Value (RAV)

The RAV has been calculated based on the Totex allowances relative to spend as detailed in section 3. RAV is reported in real, 18/19 prices, however it will be a product of underlying Totex spend net of RAV depreciation.

Total return on RAV is calculated using cost of capital. These values were set for the RIIO-2 price control period by Ofgem, following consultation with the GDNs and a CMA appeal of the Final Determinations.

Over and under spend relative to allowances is shared 50:50 with customers in RIIO-2 and this impacts RAV as well as transportation charges.

7. Tax and Tax Reconciliation

Cadent's tax return and CT600 shows a total of £166.2m which compares to tax allowances of £143.6m; a difference of £22.5m (excluding the impact of group relief). This is made up of regulatory adjustments shown on table R8 of £30.7m and the remaining difference of £8.2m being attributable to outperformance.

A summary of the differences is set out in the table below:

Chart 9: Summary of Tax reconciliation

Tax Reconciliation			
£'m	**Regulatory adjustments (shown in R8)**	**Other differences associated to performance**	**Total**
Difference between allowed revenue and actual revenue (a)	(19.6)	-	(19.6)
Different Regulatory treatment of costs (b)	(0.2)	-	(0.2)
Tax trigger event deadband (c)	-	6.6	6.6
Difference between actual and notional interest (d)	(20.3)	2.3	(18.0)
Other regulatory differences (e)	9.4	-	9.4
Non-deductible costs in CT600 and other immaterial differences	-	(0.8)	(0.8)
Total (Nominal)	**(30.7)**	**8.2**	**(22.5)**
Total (18/19)	**(24.6)**	**6.6**	**(18.1)**

(a) Revenue in the statutory accounts of the company was £78m higher than the aggregate Price Control Financial Model (PCFM) calculated revenue for the 4 networks giving rise to a higher actual tax liability than in the PCFM tax allowance.

(b) Agreed regulatory treatment of costs being different in the PCFM tax allowances than in the tax return. This is a predominantly a timing issue as to when the deduction is taken in the tax calculation, e.g. repex depreciation period is shorter in the accounts giving rise to a higher allowance. These regulatory treatments have been mandated by Ofgem.

(c) Impact of the deadband of the 4 Networks of £6.6m in the calculation of the tax trigger adjustment.

(d) Actual interest deducted in the CT600 is lower than the notional interest in the PCFM calculation of the tax allowance and so the tax deduction was lower in the CT600.

(e) Other regulatory differences include adjustments relating to the non-regulatory business including metering, de-minimis, consented and excluded services as well as other excluded costs and pension adjustments.

The table above has been prepared on the basis of Cadent Gas Limited as a single legal entity, using financial data derived from our FRS 102 statutory accounts, in line with the approach agreed with Ofgem. This is notwithstanding the fact that our group statutory accounts are prepared under IFRS.

It is also important to note that while the CT600 tax return is submitted for Cadent Gas Limited on a standalone entity basis, the tax allowance is determined on a network-specific basis. This structural difference introduces complexity into the tax reconciliation process, often resulting in significant variances between the figures presented in each column. These variances require detailed explanation to ensure clarity and transparency.

We would welcome the opportunity to engage with Ofgem to explore how the presentation of this information might be enhanced to improve understanding and better reflect the underlying tax position.

As illustrated above, when aggregating across all four networks, the differences between the calculated tax liability and the tax allowance primarily stem from timing differences in the recognition of revenue and costs, as well as regulatory adjustments — including the impact of the tax trigger deadband.

8. Corporate Governance

As noted in the section above we explain in detail our remuneration and Dividend policy and the tables provide the information requested however, we recommend that for further details the Directors' Remuneration Committee Report included in our Annual Reports And Accounts (from page 91) is read in conjunction with the RFPR. It is noted that the Directors are exempt from declaring shares because they do not hold shares at the licensee level.

To support our RFPR submission, we also provide a supplementary confidential narrative on Financial Resilience which contains further information on financial covenants at Opco and Midco and debt information relating to Midco has been provided to Ofgem.

9. Pension & Other Activities

Prior to the separation of the business from National Grid and the subsequent sectionalisation of the Defined Benefit pension scheme, allowances were applied to National Grid Gas Transmission and allocated indirectly to each network via an NTS recharge. From 2017, following sectionalisation of the National Grid UK Pension Scheme allowances, all liabilities are now applied to each network directly and there is no NTS recharge.

We have received confirmation that in compiling and reviewing Cadent's 2016/17 and 2017/18 RRP pension tables National Grid ensured that the total regulated deficit contributions (and PPF and Admin contributions) for the year for the scheme were split between Gas Transmission and Distribution in line with Ofgem's formal approach to allocating allowances between Transmission and Distribution.

In accordance with a shareholder agreement with National Grid, Cadent set up the Cadent Gas Pension Scheme (CGPS) in January 2020 and CGPS received a transfer of all assets and liabilities of Section C on 30 September 2020. The Schedule of Contributions agreed for CGPS replicated the Schedule of Contributions agreed with NGUKPS following the 2019 Valuation. All references to Section C now refer CGPS.

The latest valuation was performed as 31 March 2022 and the values presented in table R10 reflect this.

Other activities relate to Guaranteed Standard of Performance and reflect the values reported through our RRP submission. Further information can be found on Page 28 of the SPO.

Data Assurance

Where available we have used information from the Regulatory Reporting Pack (“RRP”) for the year to March 2025, the Licence as published in August 2025, the PCFM that has been submitted as part of the Annual Iteration Process, statutory accounts published in June 2025. Outputs from the Pensions Reasonable Review in relation to the Pension Deficit Allocation Methodology (“PDAM”) relate to the March 2022 valuation. All of these documents have been through thorough assurance review processes including data accuracy and completeness checks as well as independent reviews.

The information submitted in the RFPR has been subject to a high level of internal reviews and followed Ofgem’s Data Assurance Guidance (DAG) structure of Planning, Review and Sign-off.

Appendices

1. Allocations and Estimates

Existing revenue and cost allocation methodologies have been used to populate the RFPR. For any revenues and costs that are not network specific the amounts have been allocated in line with the revenue and cost methodologies set out in our cost allocation methodology statements which are reported to Ofgem annually and are applied to all regulatory reporting. This is subject to agreed upon procedures set by Ofgem.

- **General**

Costs that relate to more than one activity, or that have arisen from shared services such including human resources, central operation and network strategy activities, IS, etc. have been allocated between activities using drivers that reflect, in management's opinion, the relative consumption of the services that give rise to the costs. Where this has not been possible, such costs have been allocated on a basis that reflects the relative size of those activities or using the relative numbers of staff. Management have applied the principals within the Methodology Statement.

In reaching an opinion on suitable cost drivers, management's objective has been to produce a fair and reasonable allocation of costs, after taking into account the materiality of the costs, the availability and accuracy of cost drivers and the cost of maintaining the drivers.

Following finalisation of the RIIO-2 settlement we have reviewed approaches to allocating centrally incurred operational costs in light of the approaches utilised to set network allowances for the RIIO-2 period. For the majority of these costs the drivers utilised remain appropriate and we have not made any changes to their methods of allocation.

However, for those elements of Work Management, Other Direct Activities and Business Support costs that have previously been allocated evenly across our Networks, we have changed the method of allocation to one using network shares of RIIO-2 average Modern Equivalent Asset Value (MEAV), as a measure of relative scale. Taking this approach has the advantage of providing greater alignment with how allowances were set for the RIIO-2 period, reducing the risk of providing an unfair advantage or disadvantage to customers in different networks due solely to differences in cost allocation. Ofgem have also used this approach to underpin their network specific efficiency targets and benchmarking. In making this change Cadent have ensured that it is consistent with the principles within the methodology statement and the associated unified cost allocation methodology.

We will continue to review our cost allocation methodologies on an annual basis to ensure the most appropriate driver to align costs is used.

- **Revenue**

The second section of the Revenue table involves adding back all items of revenue that are included within the statutory accounts but excluded from the collected regulatory network revenues. These items include:

- De-minimis revenue
- Excluded services
- Consented activities
- Bad debt
- Supplier of last Resort
- R&D Tax Credit
- Accruals
- Customer contributions
- IFRS 15 Contribution released
- Theft of Gas recoveries

- Other three networks – revenue relating to other three networks needs to be added to get back to the total amount for Gas Distribution

For any revenue that is not network specific the revenue has been allocated in line with the methodologies used within the Regulatory Accounts and the Revenue RRP which are either subject to an audit or agreed upon procedures.

- **Totex**

For the reconciliation to Totex on tab R3, each of the network tables start with total costs per the Cadent Gas Statutory Accounts. An adjustment is then required to remove the other three networks based on their RFPR table R3 submission.

The nature of the reconciling items for total expenditure are largely consistent with those previously reported - the principal adjustments relate to:

- An adjustment to fully reflect the costs relating to Excluded Services which are included in the statutory accounts operational cost figure but do not form part of the Totex figure in the RRP 1.01 table.
- The removal of non-cash items (e.g. depreciation/amortisation, provision releases/additions) reported within the statutory accounts as these are not part of operating costs within the RRP.
- Adjust for any Profit or Loss on disposals not included within Totex
- The exclusion of GSOP payments as these do not form part of Totex.
- The inclusion of cash spend against provisions (e.g. environmental provision utilisation) and any cash costs charged directly to exceptional items in the accounts.
- Adjusting for capital contributions received for new connections – these are included within turnover in the IFRS accounts but netted off Capex in the RRP Totex.
- Adjusting for leases previously deemed operating but now under the new IFRS16 standard are capitalised as a Right of Use Asset.
- Bad debt costs which are included as a revenue recovery item and therefore excluded from RRP Totex.
- Theft of gas income recoveries are treated as turnover in the statutory accounts but included within Totex in the RRP.
- Reconciling items specifically in respect of the atypical events which are included in the Statutory Accounts but have been excluded from the RRP. Please see below
    - The removal of costs associated with the Grenfell tower investigation and public enquiry as these do not form part of the normal course of operating a GDN.
    - The exclusion of costs in relation to the funding for Cadent foundation (our community fund) to support customers in vulnerable areas which is excluded from Totex and reported separately in the RRP.
    - Pension costs in respect of the pension deficit recovery plan payment, which we have split between Established and Incremental. These are reported in RRP total expenditure incurred figure but not in the Statutory Accounts operational costs.
    - Non controllable costs' as reported in table 4.01 of the RRP which include costs such as Network Rates, National Transmission System (NTS) Exit costs, Shrinkage – these form part of statutory costs but are excluded from Totex.

- **Innovation**

  The NIA and CNIA actual information in this table has been extracted from the RRP tables already submitted to Ofgem.

- **Financing**

  Debt instruments that are expected to be refinanced in the medium-term are excluded from existing debt at the point in time of the planned refinancing and replaced with new debt.

  New debt is forecast to support the Totex investment levels included in our RRP forecast. Financing costs and net debt are split by the closing RAV balance for each network.

- **RAV**

  We use the Ofgem PCFM to generate the output in the format required by the RFPR templates. As such items such as Enduring Value adjustments can be modelled through into allowances to note the impact on the RAV.

- **Tax**

  Our calculation methodology for the prior year tax reconciliation is explained above. The forecast tax liability is allocated to Networks from a Cadent level based on RAV allocation.

- **Corporate Governance**

  Within the RFPR, we have allocated dividends and remuneration across the networks based on their respective RAV balances.

  A separate Corporate Governance narrative which details financial covenants at Opco and Midco and debt information relating to Midco has been provided to Ofgem.

- **Pensions**

  The network splits within this table have been based on the PDAM methodology.

  Within the table the deficit payments have been based on amounts paid to the scheme. These payments have then been split into the established and incremental deficit elements of the scheme.

  The pre cut-off assets and liabilities have been based on the PDAM submission, with these lines being completed based on the overall pension scheme (section a, b and c).

  The post-cut off assets and liabilities have also been based on the PDAM submission, but have been populated for our scheme only (section C).

  The licensee elements of the total incremental deficit has been determined using an allocation driver consistent with the cost allocation methodology.

  The licensee established deficit based on the gas distribution networks element of the total deficit, which has been allocated in line with the PDAM methodology.