

Gas Discretionary Reward Scheme 2011-12: Guidance notes and format



The aim of the discretionary reward scheme (“DRS”) is to encourage and drive performance in areas that cannot be easily measured or incentivised through more mechanistic regimes. The scheme will achieve this by recognising leading performance and beacons of excellence within the industry and by driving innovation and creativity through the promotion of best practice. The expectation is that successful schemes will be regarded as best practice and will be replicated across the industry for the benefit of consumers.

The scheme is designed to reward the performance of those GDNs which best serve the interests of customers across the specified categories. It is not intended as a means to fund GDN initiatives which have not yet been implemented. We are particularly keen to recognise those who have exceeded their licence requirements and demonstrated a strategic and joined-up approach in the planning and delivery of their activities.

Scope of the scheme

The 2011/12 scheme has a total annual reward of £4 million available across all GDNs and will cover three areas:

1. Initiatives which reduce the environmental impact of gas distribution.
2. Initiatives which facilitate network extensions, particularly those that increase the affordability of network extensions for fuel poor consumers; and
3. Schemes to promote gas safety including awareness of carbon monoxide.

For the 2011-12 scheme, we do not intend to weight the categories; the size of any reward will be at the discretion of the Panel, up to the maximum total annual reward.

GDNs should be aware that activities which are already subject to Ofgem incentives or regulatory or legislative requirements will not be eligible unless the submission demonstrates activity well beyond those requirements. A non exhaustive list of licence obligations and incentive schemes can be found in Appendix 1 of this document.

Under the new price control incentive regime, GDNs are expected to engage with stakeholders in order to better anticipate their needs and deliver a more consumer focused, socially responsible and sustainable energy service. GDNs should be able to engage proactively with their stakeholders in order to inform and align their business goals with consumer needs. We have highlighted our expectations regarding stakeholder engagement processes within this year’s minimum requirements for each category.

Minimum requirements

For each of the three areas covered by the DRS, Ofgem has specified a number of minimum requirements which must be met by all submissions under this scheme. Only those applications that meet all of the minimum requirements will be eligible for a reward.

GDN entries into each category should not necessarily cover one sole initiative. GDNs are encouraged to demonstrate a commitment to achieving the aims of the reward category by highlighting a range of initiatives across all areas of the gas distribution business.

Feedback from the 2010/11 panel members agreed that GDN entries under each category should take into account the following:

- Importance of having a cross industry dialogue, sharing best practices and building upon them in these in respective service areas.
- Measuring outcomes and benefits of the ongoing initiatives to establish their impact on customers.
- GDNs should have a process of stakeholder engagement that enables them to understand and respond to stakeholders who influence their business.

Initiatives which reduce the environmental impact of gas distribution

- GDNs are pro-active in developing systems and processes that reduce gas shrinkage.
- GDNs have effective and efficient systems, procedures and processes in place and ensure these effectively reduce the environmental impact of gas distribution and that performance in this area is regularly monitored.
- GDNs have performance indicators in place which monitor their initiatives under this category and elicit comparable information within any given timeframe.
- GDNs systems and procedures put forward under this initiative show a marked improvement from initiatives previously put forward and have not been funded or incentivised under the price control review or other available incentive regime.
- GDNs have engaged with a number of relevant stakeholders and can provide evidence of an existing engagement strategy which allows them to inform and obtain feedback on the impacts of initiatives in this area.

Initiatives which facilitate network extensions, particularly those that increase the affordability of network extensions for fuel poor consumers

- GDNs provide significant assistance to fuel poor customers to access resources^[1] to fund 'in house works' so they can benefit from extensions to the gas network;
- GDNs develop appropriate partnerships with relevant stakeholders to assist in targeting these initiatives at the fuel poor customers and communities which are generally harder to reach;
- GDNs have performance indicators in place which monitor their initiatives under this category and elicit comparable information within any given timeframe.
- GDNs systems and procedures put forward under this initiative show a marked improvement from initiatives previously put forward and have not been funded or incentivised under the price control review or other available incentive regime.
- GDNs have an up-to-date engagement strategy in place addressing how they inform and obtain feedback on the impacts of their network extensions initiatives from a range of stakeholders.

Schemes to promote gas safety including awareness of carbon monoxide

- GDNs have a scheme, or range of schemes regarding gas safety awareness, which have been/are being trialled and which incorporate lessons learned from similar schemes.

^[1] For example, from existing sources of government funding, such as those aimed at tackling fuel poverty and regeneration.

- GDNs have evidence that through their initiatives they have brought benefits to customers and/or bring forward learning that contribute to formulate forward policy in this area.
- GDNs have gathered data to understand costs, benefits and practical issues associated with different approaches to promoting gas safety.
- GDNs are able to quantify and assess the benefits (or valuable learning gained) from their initiatives by including measurable outcomes for the projects put forward.
- GDNs systems and procedures put forward under this initiative show a marked improvement from initiatives previously put forward and have not been funded or incentivised under the price control review or other available incentive regime.
- GDNs have engaged with a range of stakeholders who have commented on the GDN's approach to gas safety and the GDN has evidence of how this engagement has informed the initiatives put forward.

Format of entries

A GDN may submit one entry per category. A covering entry form (included in this Guidance) should be submitted for each reward category being entered. GDN applications should also contain the following:

- An introductory page explaining the company's corporate structure. GDNs should submit one per GDN group. (one A4 page limit);
- The main submissions (two A4 page limit per category, excluding the entry form); and
- Optional supplementary material (two A4 page limit per category)

The format of the application and the use of graphics are at the discretion of the GDN.

Application Process

GDNs should aim to keep submissions brief and simple and observe the page limits specified.

Entrants may choose to include in their submissions initiatives on which they have collaborated with other GDNs. Where this is the case, the exact role played by the entrant should be clearly identified.

Entry forms must be received at Ofgem by no later than the specified deadline. Entries will be judged by the Panel who will recommend award winners to the Authority. A determination regarding the winners of any rewards under this scheme would then be issued under the relevant licence condition (Special Condition E10).

Ofgem will provide some guidance to the Panel to assist them in making their assessment. This will take the format of some high-level principles which the Panel should consider when assessing submissions from the GDNs.

Entry forms must be received at Ofgem by no later than **5pm on 11th of May 2012**.

Panel Members

The panel will be comprised of five voting members and a non-voting Chair. The chair will be an Ofgem employee and will be confirmed in due course. The remaining five members will be drawn from organisations with expertise in the categories covered by the scheme. Last year's panel featured representation from Consumer Focus, Age Concern, the Institute of Gas Engineers and Managers, the Fuel Poverty Advisory Group and the Environment Agency.

Tenure on the Panel will be time limited, with a proportion changed from time to time to allow for a diversity of views, regions and organisations to be represented.

Ofgem expects to confirm the membership of the Panel, as well as the date of the meeting, in the first quarter of 2012.

Panel meeting

Ofgem will collate the submissions and send them to the Panel prior to their meeting in June 2012 to decide the rewards. GDNs will be notified of the exact date and timetable for the day nearer the time.

Ofgem will provide some guidance to the Panel to assist them in making their recommendations regarding the rewards. This will take the format of some high-level principles which the Panel should consider when assessing submissions from the GDNs. The principles the Panel should consider include:

- Which initiative(s) should be recognised as best practice and an example of excellence within the industry;
- Which initiative(s) are part of a holistic approach embedded in broader business processes;
- Which initiative(s) meet and exceed the minimum requirements specified by Ofgem;
- Which initiative(s) have been supported by external stakeholder organisations; and
- Which initiative(s) have best served the interests of customers throughout the year and resulted in measurable benefits.

Question and Answer session

GDNs that submit an application for the 2011/12 reward will be invited by Ofgem to attend a 10-15 minute question and answer session with the Panel on the day of the meeting.

Feedback

Ofgem will perform a secretariat role at the Panel meeting. There will be an opportunity for the Panel to provide some general feedback on submissions to GDNs on the day, although it is not compulsory for GDNs to stay for this session. Attendance of the feedback session does not preclude further feedback discussions between Ofgem and the GDNs at a later date.



**QUALITY OF SERVICE DISCRETIONARY REWARD SCHEME
GAS DISTRIBUTION NETWORK OPERATORS
ENTRY FORM**

Please note that the deadline for receipt of applications is at 5pm, May 11th 2012.

GDN DETAILS: (please complete)	CONTACT DETAILS: (please complete)
Company: Networks:	Name: Title: Telephone: Email:
Address:	CATEGORY: (please tick) Initiatives to reduce environmental impact of gas distribution Initiatives to facilitate network extensions Schemes to promote gas safety
Postcode:	

INTRODUCTION

The aim of the discretionary reward scheme is to encourage and drive performance in areas that cannot be easily measured or incentivised through more mechanistic regimes.

The scheme will achieve this by recognising leading performance and beacons of excellence within the industry and driving innovation and creativity through the promotion of best practice. The expectation is that successful schemes will be regarded as best practice and will be replicated across the industry for the benefit of consumers.

GUIDANCE FOR COMPLETING YOUR APPLICATION

- Keep it brief and simple. Keep to the page limits specified below, it will be the weight of your initiative(s) rather than the length of your application which will impress the Panel.
- A brief description of the initiative(s);
- Background information on the initiative: how it was identified, why it was implemented, objectives, etc;
- The scope and influence of the initiative(s) including: the target audience, whether partnerships were used, timeframe, impacts, etc;
- Communications: how the initiative(s) were communicated to the target audience; how feedback was sought and used; and
- How the initiative(s) were monitored and how success was measured: key performance indicators that provide comparable information, measurable outcomes of the initiative

THE RULES

1. Entries will be judged by a Panel appointed by Ofgem who will recommend award winners to the Authority. The final decision rests with the Authority.
2. Each GDN may submit one entry per category. GDNs must complete a separate entry form for each category. A GDN group may submit one entry per category which covers multiple networks, however, each of the networks covered by the entry must be clearly indicated in the relevant section of the entry form.
3. GDNs should ensure that their main submission for each category does not exceed 2 pages in length (excluding the covering entry form and any optional supplementary information). Supplementary information for each category must not exceed two pages in length per category
4. Entry forms must be received at Ofgem by no later than **5pm on May 11th 2012**. Entry forms

should be sent to lia.santis@ofgem.gov.uk electronically, with a hard copy sent to:

Lia Santis, Distribution Policy, Ofgem, 9 Millbank, London SW1P 3GE.

5. Award winners will be announced during Quarter Two (July- September). Winners may include the category and year they received an award in advertising and promotional materials.

MINIMUM REQUIREMENTS

Initiatives which reduce the environmental impact of gas distribution

- GDNs are pro-active in developing systems and processes that reduce gas shrinkage.
- GDNs have effective and efficient systems, procedures and processes in place and ensure these effectively reduce the environmental impact of gas distribution and that performance in this area is regularly monitored.
- GDNs have performance indicators in place which monitor their initiatives under this category and elicit comparable information within any given timeframe.
- GDNs systems and procedures put forward under this initiative show a marked improvement from initiatives previously put forward and have not been funded or incentivised under the price control review or other available incentive regime.
- GDNs have engaged with a number of relevant stakeholders and can provide evidence of an existing engagement strategy which allows them to inform and obtain feedback on the impacts of initiatives in this area.

Initiatives which facilitate network extensions, particularly those that increase the affordability of network extensions for fuel poor consumers

- GDNs provide significant assistance to fuel poor customers to access resources^[1] to fund 'in house works' so they can benefit from extensions to the gas network;
- GDNs develop appropriate partnerships with relevant stakeholders to assist in targeting these initiatives at the fuel poor customers and communities which are generally harder to reach;
- GDNs have performance indicators in place which monitor their initiatives under this category and elicit comparable information within any given timeframe.
- GDNs systems and procedures put forward under this initiative show a marked improvement from initiatives previously put forward and have not been funded or incentivised under the price control review or other available incentive regime.
- GDNs have an up-to-date engagement strategy in place addressing how they inform and obtain feedback on the impacts of their network extensions initiatives from a range of stakeholders.

Schemes to promote gas safety including awareness of carbon monoxide

- GDNs have a scheme, or range of schemes regarding gas safety awareness, which have been/are being trialled and which incorporate lessons learned from similar schemes.
- GDNs have evidence that through their initiatives they have brought benefits to customers and/or bring forward learning that contribute to formulate forward policy in this area.
- GDNs have gathered data to understand costs, benefits and practical issues associated with different approaches to promoting gas safety.
- GDNs are able to quantify and assess the benefits (or valuable learning gained) from their initiatives by including measurable outcomes for the projects put forward.
- GDNs systems and procedures put forward under this initiative show a marked improvement from initiatives previously put forward and have not been funded or incentivised under the price control review or other available incentive regime.
- GDNs have engaged with a range of stakeholders who have commented on the GDN's approach to gas safety and the GDN has evidence of how this engagement has informed the initiatives put forward.

DECLARATION AND CONSENT

^[1] For example, from existing sources of government funding, such as those aimed at tackling fuel poverty and regeneration.

I declare that the information contained in this application is correct and true to the best of my knowledge and belief and I give consent for Ofgem to use the information and contact details provided when publishing the Best Practice Register.

Signature:

Date:

Appendix 1 - Gas Distribution Discretionary Reward Scheme 2011-2012
 GDNs licence obligations and existing incentive schemes proposed under the Gas
 Distribution Price Control Review **2007-2012**

Categories under the discretionary reward scheme	Licence Obligations
<p>Initiatives that reduce environmental impact of gas distribution</p>	<p>Gas Transporters Licence: Special Condition E8 - Distribution Network shrinkage allowance</p> <ul style="list-style-type: none"> ▪ The shrinkage revenue allowance will be calculated taking into account a fixed volumetric allowance for gas leakage and shrinkage factors (measured as a percentage of demand for gas during the year) set out for each distribution zone and a gas reference price which will be the day ahead price from Oct 2008. ▪ By setting the day ahead gas price as the reference price, GDNs are allowed to make or lose money depending on their purchasing price decision. This allowance enables them to recoup costs for small improvements to the network but is not enough to incentivise long term investment. <p>Gas Transporters Licence: Special condition E9: Distribution Network environmental emissions incentive revenue and compliance with the Leakage Model.</p> <ul style="list-style-type: none"> ▪ The environmental emissions incentive targets the impact to the environment caused by methane emissions released by gas leakage. Gas leaking from the network is a significant source of greenhouse gas emissions representing .75% of GB emissions. ▪ The proposed leakage baseline was £29.70 per MWh over the price control period. Caps and collars of £7 million to £10 million have been set up to minimise risk of excessive gains or losses. ▪ If GDNs achieve lower leakage than the established target leakage baseline then they will be rewarded and if the leakage is higher they are penalised at the same rate. ▪ The shrinkage incentive is intended to provide incentives to GDNs to minimise the amount of shrinkage on the network by allowing them to minimise their costs. The environmental emissions incentive is intended to pass on the environmental cost of leakage on to the network. ▪ The shrinkage element of the DRS is intended to encourage GDNs to undertake major high cost investment in managing and or measuring shrinkage - the costs of which are so significant that they would not be recovered through the shrinkage and environmental incentives but the DRS would provide recognition that they had done this work. <p>Standard Special Licence Condition D5</p> <ul style="list-style-type: none"> • The licensee shall operate each of the pipe-line systems to which its licence relates in an efficient, economic and co-ordinated manner. <p>Gas Act Schedule 3 Section 10</p> <ul style="list-style-type: none"> • It shall also be the duty of the GDN to avoid any undue preference or undue discrimination in the connection of a pipeline. They have a duty to provide a connect customer and provide connection quotes. <p>GDPCR 2007-2012 Final Proposals</p> <ul style="list-style-type: none"> ▪ Innovation Funding Incentive for Sustainable Development (IFI/SD) scheme to provide special focus for Research, Development &

Categories under the discretionary reward scheme	Licence Obligations
	<p><i>Demonstration activities which must have clear environmental and sustainability benefits and be aligned with Ofgem's sustainable development themes.</i></p> <ul style="list-style-type: none"> ▪ <i>The remit of IFI/SD is considered wide enough to encourage research on improving safety in the industry and in homes.</i>
<p>Initiatives which facilitate network extensions, particularly those that increase the affordability of network extensions for fuel poor consumers;</p>	<p>GDPCR 2007-2012 Final Proposals</p> <ul style="list-style-type: none"> ▪ <i>GDNs should amend their existing charging methodology statements under standard licence condition 4B to reflect changes in the Economic Test when applied to non-gas fuel poor communities;</i> ▪ <i>The economic test allowance will enable GDNs to offer a discount to the connection charge equivalent to the present value of the transportation revenue that it will receive from the new customer.</i> ▪ <i>Although GDNs are fully compensated for network extensions through their price control revenue, the DRS is intended to encourage GDNs to seek out fuel poor consumers and raise awareness of the opportunity to connect them to the network;</i>
<p>Schemes to promote gas safety including awareness of carbon monoxide.</p>	<p>Standard Licence Conditions</p> <ul style="list-style-type: none"> • <i>SLC6 1(a) Operate and maintain a single continuously manned telephone service offering of information, guidance or advice about any matter or incident that causes danger or involves the escape of gas.</i> • <i>SLC6 1(c) secure adequate publicity for the service and its telephone number, having regard, in particular, to the special needs of blind or partially sighted persons.</i> <p>Standard Special Licence Condition D6</p> <ul style="list-style-type: none"> • <i>The licensee shall provide a first call emergency response service in the event of an emergency which involves an actual or suspected release of gas.</i> • <i>The licensee shall make arrangements which shall ensure that its first call emergency response service to the NTS operator is effected by a competent person or persons who have been adequately trained and possess appropriate expertise to provide that service on behalf of the licensee.</i> <p>GDPCR 2007-2012 Final Proposals</p> <ul style="list-style-type: none"> ▪ <i>Innovation Funding Incentive for Sustainable Development (IFI/SD) scheme to provide special focus for Research, Development & Demonstration activities which must have clear environmental and sustainability benefits and be aligned with Ofgem's sustainable development themes.</i> ▪ <i>The remit of IFI/SD is considered wide enough to encourage research on improving safety in the industry and in homes.</i> ▪ <i>There are no applications for funding under the innovation funding incentive as yet for initiatives associated with carbon monoxide so there is no duplication with this element of the DRS.</i>

