

## The gas distribution discretionary reward scheme 2008-09: Decision report



### Introduction

The Discretionary Reward Scheme for gas distribution was introduced as a part of the Gas Distribution Price Control Review for the period 2008 – 2013 as way of rewarding the companies which best serve the interests of gas customers in specified reward categories. Under the scheme, the gas distribution network companies (GDNs) make submissions to Ofgem, detailing initiatives that they have carried out in the previous year in those categories. The submissions are reviewed by an external panel, put together by Ofgem, which makes a decision on which applications should be rewarded.

The rewards feed into the GDNs' maximum recoverable revenues on two-year lagged basis, so the rewards made for 2008-09 will feed into GDN revenues for the year 2010-11.

This is the first year in which the scheme has taken place, though a similar scheme has been operating successfully for the electricity distribution companies for a number of years. The scheme has a maximum annual reward of £4 million, available across all GDNs, and covers three areas:

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

The panel for the 2008-09 scheme was chaired by Martin Crouch, director of European Strategy & Environment. The other five members of the panel were

- Rhys Evans, Deputy Senior Director, Consumer Focus Wales.
- Malcolm Fergusson, Head of Climate Change, Environment Agency.
- Gretel Jones, Consumer Affairs Policy Advisor, Age Concern England
- Derek Lickorish, Chair of the Fuel Poverty Advisory Group
- John Williams, Chief Executive, Institute of Gas Engineers and Managers (IGEM).

### The panel's decision

The panel met at Ofgem's offices on Millbank, London on 16 June 2009. The GDNs made presentations on their submissions, after which the panel made a decision as to which applications should receive rewards and what the size of those rewards should be.

Each GDN was allowed to submit one application in each scheme category. National Grid Gas (NGG) submitted an application in each category, as did Scotia Gas Networks (SGN). Wales and West Utilities (WWU) and Northern Gas Networks (NGN) each submitted one application on gas safety.

SGN was rewarded with £200k in the gas safety category for a range of initiatives, including equipping its emergency and repair staff with personal atmosphere monitors which can instantly identify the presence of the toxic gas, carbon monoxide, if they are called to visit someone's home. SGN have identified a number of occasions where staff attending properties on unrelated visits have detected carbon monoxide leaks. SGN were also rewarded with £250k in the network extensions category for work on helping fuel poor

customers to connect to the gas grid. The panel decided to reward SGN with a further £100k for its submission in the 'reducing the environmental impact of gas distribution' category. Here, SGN had utilised a variety of innovative techniques in order to improve the accuracy of its leakage model, including commissioning a contractor to assess World War II photographs in order to more accurately classify buried gas mains.

The panel decided to reward NGG with £100k for schemes on promoting gas safety, in particular, working with the National Union of Students to raise awareness of the dangers of carbon monoxide amongst first year university students. The panel were impressed with NGGs use of novel strategies in targeting students, such as producing a promotional film.

NGG were also rewarded £250k for schemes in the network extensions category, for establishing a community interest company, Affordable Warmth Solutions CIC, to help fuel poor communities and customers connect to the gas grid.

The total amount rewarded was £0.9m out of a possible £4m. This reflects the number of applications that we received (8 of a possible 12, one of which was ineligible) but also the fact that the panel thought that the GDNs could have gone further and could have delivered further measurable benefits to customers within the year in question. Ofgem and the panel are looking forward to seeing how the GDNs respond to this challenge in their submissions for the second year of the scheme.

The scheme submissions and the presentations that the GDNs made at the panel meeting have been placed on the Ofgem website.