



Report on the Gas Discretionary Reward Scheme 2009/10

Introduction

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

The scheme aims to recognise leading performance and beacons of excellence within the industry and drive innovation and creativity through the promotion of best practice.

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.

This is the second year of the scheme, and good progress has been made since last year's benchmark. 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.

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

The panel for the 2009-10 scheme was chaired by Sarah Harrison, Senior Partner Sustainable Development, Ofgem. The other five members of the panel were:

- Audrey Gallacher, Head of Consumer Focus
- Tony Grayling, Environment Agency
- Gretel Jones, Consumer Affairs Policy Advisor, Age Concern England
- Derek Lickorish, Chair of the Fuel Poverty Advisory Group
- Andy Wagg, Chief Executive, Institute of Gas Engineers and Managers (IGEM).

Decision

The Panel commended all of the GDNs that entered this year's scheme for the effort that had gone into preparing their submissions and the continuous improvement that had been demonstrated in various ongoing projects. There were a number of initiatives that stood out as being particularly creative and worthy of recognition. Nevertheless, the panel recommended GDNs should make greater effort in including all relevant information within their application and endeavour to quantify the benefits of their initiatives by including measurable outcomes for their projects.

The total amount rewarded this year was £2 million out of a possible £4 million. This reflected the panel's view that significant progress was achieved from last year's initiatives and they wanted to reward the continuity and scope of such initiatives. On the other hand,

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the panel believed there was still room for improvement and the GDNs should expand on their initiatives and improve them by collaborating with the wider industry.

Environment Category

A total of £700,000 was awarded under this category. Both SGN and NGG were awarded £300,000 while WWU received £100,000.

SGN was commended on the breadth of application of their “green gas” project in partnership with Thames Water and Centrica. This project aims to introduce bio methane produced from sewerage waste into the gas distribution network.

NGG was rewarded on their leading role in progressing a public debate on environment through their collaboration with DECC and input into the Government’s bio methane producer’s guide. They were also recognised in this category for their initiatives in reducing the impact of street works by using new technology such as keyhole excavation and repair, beam drilling and back of socket pressure pots.

WWU was recognised because of the land remediation project which re-used and recycled 99% of waste materials on the former gas production works in Aberaman, South Wales. They engaged effectively with the community and minimised environmental impact with an innovative on-site solution. The panel was also impressed by WWU leading role in co-ordinating industry sessions to implement a common leakage model across the industry and redefining the Uniform Network Code requirements with Shippers.

The panel wished to invite NGN to come forward with an application on this category and seek feedback from Ofgem regarding the scope of the scheme which is not limited to leakage but includes wider environmental measures.

Network Extensions Category

A total of £500,000 was awarded in this category. SGN were awarded £300,000 while NGG and NGN were each awarded £100,000.

SGN’s breadth of approach in their application of their Assisted Connections scheme impressed the panel. They have connected 7,500 fuel poor households and are en route to connecting 4,700 more. They hold the highest proportion of network extensions per area of all the GDNs. They have also made an effort to widen their approach to the fuel poor by contacting all owners of mobile park sites in their southern network and exploring possibilities to deliver system extensions to this population.

NGG’s “Affordable Warmth Solution” (AWS) initiative also received an award reflecting the enduring nature of the project and the significant progress achieved since its inception last year. NG has connected around 3,400 fuel poor households to their gas distribution network.

NGN was recognised for their New Wortley estate regeneration project in which they had to overcome significant hurdles to persuade the community of the benefits of a gas connection. To this end, NGN worked with different partners such as the Community Energy Solutions (CES) and the Tenants and Residents Association (TARA) to assist in enabling the residents to sign up for gas connection and central heating.

WWU initiative showed a marked improvement over last year’s submission but more work needs to be done in terms of expanding the coverage of the initiative to earn an award.

Gas Safety Category

The panel awarded a total of £800,000 under this category in recognition of the importance of raising CO awareness and the fact there are no other funds within the price control which

tackle this issue. SGN received £500,000 and the other three networks received £100,000 each.

SGN was rewarded on the breadth and depth of their approach to gas safety, specifically on raising CO awareness with a "low user" group identified through their partnership with SSE, a supplier. They have also successfully rolled out their Personal Activation Monitors (PAMs) to their staff enhancing safety and fostering a culture of leading by example.

NGG, WWU and NGN were recognised in this category for their efforts in raising awareness of the dangers of CO with different user groups, particularly student populations and the elderly.

Areas for improvement

The total amount awarded was £2m out of a possible £4m. The panel allocated half of this substantial award to recognise the improved performance of the GDNs in the past year and to stress the fact that there are still opportunities to expand the initiatives and quantify their impact more effectively.

The panel thought that SGN's submission showed the highest quality and the greatest depth across all the categories; while NGG's work in the public arena was important in raising the industry's profile and influencing public policy in environmental issues.

The panel recommended GDNs should make an effort in including all relevant information within their application and endeavour to quantify the benefits of their initiatives by including measurable outcomes for their projects.

Scope of the 2010/11 scheme

The 2010/11 scheme has a total annual reward of £4 million available across all GDN groups and will cover:

- 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.

Communications

We will be making the decision public on the Ofgem website towards the end of September. We will also issue a short Information Note to the trade press.