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3rd June 2013

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Lia,

Re: Consultation on Ofgem's Governance Arrangements for the Gas Discretionary Reward Scheme (DRS) under RIIO GD1

National Grid Gas plc welcomes the opportunity to respond to this consultation. This response is made on behalf of National Grid Gas Distribution (NGGD). Please find below our general observations on the consultation itself and answers to the individual consultation questions.

We have welcomed the use of the Discretionary Reward Scheme (DRS), as a mechanism to incentivise gas distribution networks to bring benefits to consumers that would not otherwise have been realised.

We have taken an active part in the GDPCR1 scheme and look forward to participating under RIIO-GD1. Recognising that the DRS rewards are lower under RIIO-GD1 we are keen to work with Ofgem and the industry to develop a framework that can sit alongside the newly created Stakeholder Engagement Incentive Scheme (SEIS) and that can provide full rewards for companies demonstrating appropriate behaviours and actions.

In recognising that the rewards are lower under RIIO-GD1 we also see the merits of incorporating the DRS value and outputs (£12m over 8 years) into networks' SEIS. This could have the effect of reducing the complexities and administrative burden of running two very similar schemes.

If the schemes continue to be kept separate, the SEIS is in its infancy and we believe that the DRS can be enhanced by providing a more transparent framework and scoring mechanism. This would provide benefits to both the companies participating as well as the panel members having a clearly defined framework within which to work.

We have welcomed the scope of activities and the panel's feedback that has taken place under DRS and believe it has enabled companies to innovate and think more creatively. We believe that further strides can be made with regard to collaboration and best practice sharing. We propose that DRS be built on the foundations of collaboration, rather than

competition, whereby all networks work together to develop innovative solutions to customers and stakeholders problems together with the incentive values being accessible equally to each network. We would like to propose the following in terms of principles, structure, content and format of the new DRS scheme:

Principles

- The DRS should encourage collaboration, rather than be a competition between each GDN, in order that GDNs work collaboratively to develop value added customer solutions
- The boundaries between Licence Conditions, Incentives and Reward Schemes should be clearly defined, especially in relation to subject areas and funding arrangements
- Categories should be unlimited (currently set at 3), giving GDNs an opportunity to deliver customer benefits across a range of outputs.

DRS Governance Arrangements

- Rewards should be set against a clear framework such as ranking and weighting to assess the importance and delivery of each subject area and assessment of the scheme itself. It would also help in improving the quality of submissions and improve panel decision making. The balanced scorecard adopted for SEIS could be one way of doing this
- The application form should be flexible to allow for more detail if required. The submission should contain key component parts of project management, key performance indicators, systems and procedures and stakeholder engagement and these should be subject to weighting and scoring criteria
- The Panel should be made up of a good cross section of the energy industry

We would welcome the opportunity for GDNs to work collaboratively with Ofgem following the closeout of this Consultation to build upon the consultation responses and create a RIIO DRS Framework for the next 8 years, with the appropriate structure, content and governance arrangements for the new scheme. Two areas where a collaborative approach has benefitted consumers are in the subject of network development/planning for new low carbon technology connections, whereby the Energy Market Issues for Biomethane (EMIB) Working Group was set up through the ENA.

In addition a Distributed Gas Sub Working Group has been established with members from all GDN'S, and industry consultants when required. This Group has set out the working arrangements and voluntary standards of service for new Biomethane Gas to Grid connections, with ongoing collaborative working to address industry and market issues. The group meets on a monthly basis and all meetings are facilitated by the ENA.

We believe that a more collaborative approach could be achieved by focusing outcomes on subjects where there is known to be a particular area of concern, either through GDNs stakeholder engagement, or through other engagement and consultations, such as Ofgem's Annual Plan, or subjects raised by other industry/Government departments which warrant further research. For example, awareness and access to the Priority Services Register, an improved framework for Theft of Gas, and the roll out of Smart Metering, amongst others.

We would be happy to participate in a GDN DRS Forum where this new framework can be debated further. The remainder of this Consultation response is focussed on answering the individual consultation questions.

Whether the proposed assessment approach is appropriate and whether a panel review instead of a session would be more appropriate.

We consider that the assessment approach can be enhanced from the current arrangements and propose the following suggestions:

- *Outcomes* - The outcome areas could be broadened from the current 3, and include areas such as European and International networks development, Multi energy sector collaboration (across Gas Transmission, Gas Distribution and Electricity Transmission and Electricity Distribution). The scheme should be able to work alongside RIIO Outputs, especially the Customer Satisfaction incentive and reward scheme and any outstanding points raised from the feedback obtained from stakeholders during the RIIO Business Plan creation phase.
- *Assessment Process* - The assessment carried out by Ofgem and the DRS expert panel could be enhanced by adopting a Balanced Scorecard Approach, with appropriate rankings and weightings applied to each component part of the submission and scored appropriately. This would provide guidance and clarity around the assessment process, giving more logical outcomes than the current process. It would also provide a more objective tool to aid decision making for the Panel and provide more consistency for the companies involved.
- *Submission Process* - We believe there are merits in retaining both the written and verbal elements of the submission process but transparency could be improved by having visibility of each GDNs submission before the panel takes place and having an opportunity to comment on these too, either before or during the Panel session. Each GDN could take a lead on specific outcome areas.
- *Allocation of Awards* – We consider that there needs to be a balance struck between the rigours of the application and governance process and the size of the awards available so that maximum reward is given to the most innovative solution that provides the best outcome for consumers, so that GDNs can be properly encouraged and incentivised to allocate their resources in the most appropriate way.

Whether the approach to allocating the financial reward is proportionate?

The methodology for allocating financial rewards needs to be equitable recognising that all 8 networks have their own individual price control arrangements. In other words, any given award should expressly recognise and be in proportion to the number of networks to which it relates, rather than the company making the submission. We support the allocation of rewards being based on some form of balanced scorecard approach, so that the scheme is consistent and measurable.

Moreover, the DRS needs to work alongside the existing Licence obligations and incentives placed upon network companies. A clear framework needs to be established which incentivises networks to provide truly collaborative solutions to industry and consumer issues which could lead to significant consumer benefits which are not currently being fully realised.

Any additional information or ideas on how the GDNs should be assessed for the purposes of the scheme

We believe that a more collaborative approach to DRS would have many benefits in that the combined efforts of all GDNs could deliver additional customer benefits for UK plc and will enable GDNs to undertake initiatives that are over and above those which are delivered under the existing Licence Conditions and complement the SEIS.

Any concerns or further suggestions about our proposals

We have set out above our thoughts in relation to the existing scheme, and have proposed a framework and process to develop a robust Strategy for DRS to operate within RIIO for the next 8 years. We would welcome the opportunity to work with Ofgem and other stakeholders to establish a DRS Forum going forward to achieve these aims.

If you would like to discuss any part of this response please contact Ruth Thomas, ruth.thomas2@nationalgrid.com, 07768 173469.

Yours sincerely,

by email

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