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**03 June 2013**

Dear Lia,

**Consultation on Ofgem's Governance arrangements for the Gas Discretionary Reward Scheme under RIIO-GD1**

Thank you for the opportunity to provide feedback on Ofgem's governance arrangements for the Gas Discretionary Reward Scheme (DRS) under RIIO-GD1.

We agree the DRS scheme should deliver outputs that contribute to environmental and social objectives beyond those funded through the price control. We also agree the scheme should recognise leading performance and drive innovation and creativity through the promotion of best practice that can be shared and replicated across the industry for the benefit of consumers.

In relation to the specific questions you raise, our response is as follows:

**Question. 1. Whether the proposed assessment approach is appropriate and whether a panel review instead of a session would be more appropriate.**

We note the proposed assessment approach is similar to the Stakeholder Engagement Incentive Scheme (SEIS) process and agree this is generally fit for purpose.

However, we recommend that 2 or 3 members of the panel undertake a half day site visit ahead of the formal panel session. This will enable those panel members to learn more about each of the gas distribution network companies (GDNs), and substantiate the evidence put forward as part of a GDN's DRS submission. Panel members would have the opportunity to discuss initiatives with the relevant champions within each GDN, and in so doing share best practice and collaborative working amongst companies.

We consider this would ensure GDNs prepare an evidence based submission that is centred around the initiatives under each category.



**Question. 2. Whether the approach to allocating the financial reward is proportionate?**

The DRS and SEIS are fundamental and integral elements of a GDN's wider corporate social responsibilities.

We therefore consider it may be more logical to combine the DRS and SEIS processes into one process. This would help remove complexity and duplication of effort from both Ofgem's and a GDN's perspective, and create a more harmonised approach.

**Question. 3. Any additional information or ideas on how the GDNs should be assessed for the purposes of this scheme.**

As noted in our response to Question. 1 above, our preference is for an evidence based assessment that would encourage panel members to learn more about each GDN and share best practice for future learning.

**Question. 4. Any concerns or further suggestions about our proposals.**

We understand Ofgem will be undertaking a review of the Fuel Poor Extension Scheme at some point over the next twelve to eighteen months. It will be important for Ofgem to ensure consistency between the outputs of this scheme and the assessment of initiatives under the DRS and SEIS.

Ofgem should also ensure there are no restrictions on limiting the number of outputs that should be considered as part of any incentive scheme(s) moving forward.

We trust our response will be useful in reviewing the governance arrangements for the DRS.

Should you have any further questions on our response please do not hesitate to contact me at [paul.mitchell@sgn.co.uk](mailto:paul.mitchell@sgn.co.uk)

Yours sincerely,

Paul Mitchell  
**Regulation Manager**