

Gas distribution networks,
consumer groups'
representatives and other
interested parties

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Date: 31 October 2014

Dear Stakeholders,

Open letter on arrangements for the first Gas Discretionary Reward Scheme (DRS) under RIIO-GD1

Background

The aim of the Gas DRS is to encourage gas distribution network operators (GDNs) to undertake activities to help address a range of social or environmental issues.¹

Under the RIIO-GD1 arrangements, the Gas DRS will run every three years, with a maximum reward of £12m available across the GDNs, over the price control.

The first RIIO-GD1 Gas DRS panel assessment will take place in summer 2015. The panel will assess performance in the first two years of RIIO-GD1 (2013-14 and 2014-15). The maximum reward available for this assessment is £4m, to be allocated across the GDNs.

Open letter

On 25 November 2013 we published our decision on the governance arrangements for the RIIO-GD1 Gas DRS.² In this document we specified that we would publish a Guidance Document to confirm:

- The process for applying for the Gas DRS (eg the dates for submission),
- Guidance on the type of initiatives that we expect to be in each GDN's submission,
- The high-level considerations that the Panel may take into account / the principled framework that the panel will use to help their decision making, and
- The difference between the DRS and the Stakeholder Engagement Incentive.

Please find attached in Annex 1 our draft Gas DRS Guidance Document for the first RIIO-GD1 panel assessment in summer 2015.

¹ RIIO-GD1 Strategy Decision – Outputs and Incentives, 31 March 2011 <https://www.ofgem.gov.uk/ofgem-publications/48259/qd1decisionoutput.pdf>

² Decision on Ofgem's governance arrangements for the Gas Discretionary Reward Scheme under RIIO-GD1, 25 November 2013 <https://www.ofgem.gov.uk/ofgem-publications/86609/drscondecision261113.pdf>

We are seeking any views that stakeholders may have on the draft Guidance Document. We are specifically interested in receiving views on the type of initiatives that the submissions should cover and the high-level considerations that the Panel should take into account.

Next steps

Once we have reviewed responses to this open letter, we intend to publish a final Gas DRS Guidance Document later this year.

Responses should be sent, preferably by email, to connections@ofgem.gov.uk by 28 November 2014. Unless clearly marked as confidential, all responses will be published on our website.

If you have any queries in relation to this consultation please contact Stephen Perry by email or on 0207 901 1806.

Yours sincerely,

James Veaney
Head of Distribution Policy

Annex 1 – Guidance on applying for the RIIO-GD1 DRS and our approach to assessing submissions in summer 2015

Governance Arrangements

We have listed below the type of initiatives we expect GDNs to put forward under each output category. This is not an exhaustive list and GDNs should not consider themselves limited to the examples we have provided.

1. Environmental outputs:

- Initiatives that show commitment to delivering low carbon/environmental objectives within the company's daily operations.
- Initiatives that display an innovative approach to network development/planning for low carbon future (eg developing standards of service for connecting bio-methane producers and/or other low carbon technologies to the network)
- Initiatives that tackle the environmental impact of gas distribution activities (leakage/shrinkage).

2. Social outputs:

- Development of energy solutions for the fuel poor.
- Initiatives that facilitate sustainable energy solutions to the fuel poor by building partnerships with other parties in the sector (eg electricity distributors, suppliers, technology providers, local councils, agencies).
- Initiatives that improve the knowledge that the company has regarding vulnerable and fuel poor customers in their service area.

3. CO safety outputs (which include but are not limited to):

- Initiatives showcasing an innovative approach to raising awareness of impacts of CO exposure among high risk groups.
- Initiatives that demonstrate good use of partnerships with relevant stakeholders (local and health authorities, NGOs, voluntary sector organisations, Suppliers).

Applying for the RIIO-GD1 DRS

We are proposing two key requirements in the application process for the DRS:

1. Submission of an application in which each company demonstrates performance against the minimum requirements (see overleaf). The application form will be a standard template with text fields for the companies to briefly explain how they have met the minimum requirements and how it is linked to their main submission.
2. A main submission where the companies set out those initiatives in the environmental, social and safety areas they want to present for the Panel's consideration. As part of their submissions GDNs should highlight any relevant licence requirements or incentives. We would like the GDNs' main submission in two parts.
 - a. **A joint GDN submission.** At the last Gas DRS panel assessment, the panel told the GDNs to place more emphasis on cross-industry collaboration to maximise their joint impact. We therefore invite the GDNs to submit a joint entry for each category (maximum four A4 pages per category) to outline the work that they have completed collaboratively.

- b. **An individual GDN submission.** Alongside the joint submission, each GDN may also submit one individual submission per category (maximum two A4 pages per category) – to demonstrate how the GDN has met minimum requirements, highlight any work that the GDN has completed individually and identify any initiatives that the GDN considers to be best practice.

Submission process

The format of the application and the use of graphics are flexible and there is no restriction on the font sizes used in submissions.

All submissions should be received by us by **5pm on 16 May 2015**. All submissions should be emailed to connections@ofgem.gov.uk.

Minimum requirements

The application form requires evidence of how the companies have met the minimum requirements for each of the three categories during the relevant scheme year. Although we ask for a joint GDN submission, GDNs will be reviewed individually to assess whether it has met the minimum requirements. The minimum requirements are that –

- GDNs have robust project management processes in place, appropriate resources and buy in at a senior level within their organisation to ensure commitment to the initiatives proposed
- GDNs have performance indicators in place which monitor the impact of their initiatives
- 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 through the price control or other incentive schemes and
- GDNs have engaged with a number of relevant stakeholders and can provide evidence of an existing engagement strategy which informs the development of initiatives and allows them to understand their impact.

Assessment approach

The joint and individual submissions should capture initiatives for the three output areas defined above. The activities can span one or more of their local distribution areas. The activities should have taken place during 2013-14 and 2014-15. Some of the companies (National Grid Gas Distribution, Scotia Gas Networks) operate more than one gas distribution network. For the avoidance of doubt, each company is limited to one individual submission alongside the joint GDN submission.

Initial internal review by Ofgem

The first stage of the assessment process will involve an initial assessment of each GDN by Ofgem. We will do this before the meeting of the expert panel. Only those GDNs that pass our internal assessment of minimum requirements will be forwarded to the DRS expert panel.

Assessment by the DRS expert panel

An independent panel will assess each GDN's initiatives. GDNs will qualify for assessment by the Panel only if they meet the minimum requirements.

We will provide some guidance to the Panel to assist it in making its recommendations. This will take the format of some high level considerations which the Panel should take into account in its assessment.

These considerations will include –

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

We will also ask the panel to take into account whether the GDNs have responded to the feedback that they received at the last Gas DRS.³ Namely that the GDNs need to:

- place more emphasis on cross-industry collaboration (eg sharing data and learning) to maximise their impact reducing in fuel poverty and improving their environmental performance,
- adopt best practice activities and initiatives,
- measure and quantify the impact of their activities,
- broaden the passion and creativity that some organisations have demonstrated in their CO safety initiatives into the other assessment areas, and
- widen their approach to addressing issues associated with fuel poverty.

Differences between Gas DRS and Stakeholder Engagement Incentive

We consider that whilst the Gas DRS compliments the Stakeholder Engagement Incentive, they should reward and incentivise different activities.

The delivery of environmental and social objectives should be underpinned by a coherent stakeholder engagement strategy - we therefore expect that some DRS activities are likely to be included in the Stakeholder Engagement submission. However, the Stakeholder Engagement Incentive should reward a wider range of activities than just those related to the delivery of social and environmental outputs.

The Stakeholder Engagement Incentive and Gas DRS also have different focuses. The Stakeholder Engagement Incentive assesses whether the GDNs' *stakeholder engagement activities* are innovative, embedded in the business and supported by robust project management and that these activities lead to positive outcomes. Whereas the Gas DRS assesses whether the GDNs' *activities to deliver social, carbon monoxide and environmental outputs* are considered as best practice, part of a holistic approach and best serve the interests of customers, etc. Whilst this is likely to involve engaging with stakeholders, it should also cover other activities that GDNs are undertaking to deliver outputs on these topics.

Question and Answer session

Those GDNs that pass minimum requirements will be invited to attend a 15-20 minute question and answer session with the Panel on the day of the meeting.

Feedback

³ Report on the GDPCR Gas Discretionary Reward Scheme 2012-13, <https://www.ofgem.gov.uk/ofgem-publications/84656/qasdrspanelreport2012-13.pdf>

There will be an opportunity for the Panel to provide some general feedback on submissions to GDNs on the day. Further feedback will be made available in subsequent discussions between us and the GDNs at a later date.

Panel composition

The Panel will be composed of up to six members, including a non-voting chair. The chair will be an Ofgem employee. Tenure on the Panel will be time-limited and we will seek to include representatives on the Panel from a range of organisations, to provide us with a diversity of views.

The decision

Drawing on the views expressed by the Panel, we will make a final decision in relation to the award of the DRS. Our decision will be informed by the assessment process outlined in this letter but it will not be bound by any recommendations or analysis made by us or the Panel. Our decision will be published in the autumn following the panel assessment.

GAS DISCRETIONARY REWARD SCHEME



Making a positive difference
for energy consumers

**GAS DISCRETIONARY REWARD SCHEME
APPLICATION FORM**

COMPANY DETAILS: (please complete)

Company:
Licensee(s):

Address:

Postcode:

CONTACT DETAILS: (please complete)

Name:

Title:

Telephone:

Email:

THE RULES:

1. Refer to the accompanying guidance notes to the Gas Discretionary Reward Scheme.
2. Fill out this application form and attach it to your main submission. The overview of evidence and all supplementary information should be referenced in this application form.
3. Complete applications must be received at Ofgem by **no later than 5pm on 16 May 2015**. They should be sent electronically to connections@ofgem.gov.uk.

MINIMUM REQUIREMENTS		
Please provide supporting evidence and high level overview of how your company has met the minimum requirements set out below:	Any evidence submitted within submission	Overview of your arguments demonstrating compliance with requirement. Clearly signpost as to additional relevant evidence/information within submission
GDNs have robust project management processes in place, appropriate resources and buy in at a senior level within their organisation to ensure commitment to the initiatives proposed		
GDNs have performance indicators in place which monitor the impact of their initiatives		

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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 through the price control or other incentive schemes		
GDNs have engaged with a number of relevant stakeholders and can provide evidence of an existing engagement strategy which informs the development of initiatives and allows them to understand their impact.		