

Decision on RIIO-GD1 Gas Discretionary Reward Scheme 2013-15

Final decision

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Overview:

This document summarises the results of the RIIO-GD1 Gas Discretionary Reward Scheme 2013-15. The scheme is designed to reward exceptional outcomes achieved by the GDNs for consumers that can be regarded as best practice and replicated across the industry.

Up to £4million was available to the gas distribution companies under this scheme. We decided to award £3.05 million. This document contains the details of our decision.

Context

RIIO-GD1 is the first gas distribution price control that uses the RIIO price control model. RIIO stands for revenue = incentives + innovation + outputs.

The price control began on 1 April 2013 and runs for eight years to 31 March 2021. Gas distribution networks (GDNs) were given an allowance of £16.8 billion for the eight year period to deliver a range of safety, reliability, environmental, new connections, social obligations and customer outputs.

As part of RIIO-GD1, the aim of the discretionary reward scheme ("DRS") is to encourage and drive performance in areas that cannot be easily measured or incentivised through more mechanistic regimes. The scheme looks to achieve this by recognising leading performance and beacons of excellence within the industry and by driving innovation and creativity through the promotion of best practice. The expectation is that successful schemes will be regarded as best practice and will be replicated across the industry for the benefit of consumers.

The scheme is designed to reward the performance of those GDNs which best serve the interests of customers across the specified categories: social outputs, environmental outputs, and carbon monoxide safety outputs. It is not intended as a means to fund GDN initiatives which have not yet been implemented. We are particularly keen to recognise those who have exceeded their licence requirements and demonstrated a strategic and joined-up approach in the planning and delivery of their activities.



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1. Introduction

- 1.1. This year's assessment is the first under the RIIO GD1 price control¹. In RIIO-GD1 Final Proposals² we said that we would include the Gas DRS in the price control to reward companies that deliver outputs that contribute to environmental and social objectives beyond those funded at the price control. The scheme rewards the performance of GDNs across three specified categories³:
 1. Social outputs
 2. Environmental outputs
 3. Carbon monoxide (CO) safety outputs
- 1.2. This incentive is designed to reward exceptional outcomes achieved by the GDNs for the consumers that can be regarded as best practice and replicated across the industry. It recognises leading performance within the industry and aims to drive innovation. It is not intended as a means to fund GDN activities.
- 1.3. Under the RIIO-GD1 price control the total reward available to the GDNs under this reward scheme is £12 million. We will be awarding this in three tranches of £4million (with assessment taking place every three years)⁴.

The assessment process

- 1.4 We issued guidance to the GDNs on applying for the RIIO-GD1 DRS and our approach to assessing the submissions for 2015⁵. Within the guidance document we explained the submission requirements and the assessment process, and provided examples of the types of initiatives we expect GDNs to put forward under each category.
- 1.5 There are two key requirements of the submission in the application process for the DRS:
 1. The submission of an application in which each company demonstrates performance against the minimum requirements.

¹ RIIO-GD1 is the first gas distribution price control under the new RIIO (Revenue = Incentives + Innovation + Outputs) model. RIIO-GD1 is set for an eight-year period from 1 April 2013 to 31 March 2021.

² [RIIO-GD1: Final Proposals - Overview](#)

³ More information on the outputs that are included in the RIIO-GD1 DRS is available in [RIIO-GD1: Final Proposals – Supporting Document – Outputs, incentives and innovation](#).

⁴ The next two assessments will take place in summer 2018 and 2021. The third and final review of RIIO-GD1 in 2021 will actually take place in the first year of RIIO-GD2, but will assess GDNs performance in relation to the last three years of RIIO-GD1.

⁵ [Guidance document on applying for the RIIO-GD1 Gas DRS](#).

2. A main submission where the companies set out those initiatives in the environmental, social and safety areas they want to present for the Expert Panel's consideration. The GDN's main submission was required in two parts:
 - **An individual GDN submission.** Each GDN can submit one individual submission per category to highlight any work that the GDN has completed individually.
 - **A joint GDN submission.** We invited the GDNs to submit a joint entry for each category to outline the work that they have completed collaboratively.
- 1.6 The first stage of the assessment process involves an initial assessment of each GDN's submission by Ofgem. We do this before the meeting of the Expert Panel. Only those GDNs that pass our internal assessment of minimum requirements are forwarded to the DRS Expert Panel.
- 1.7 Following the initial assessment, an independent Expert Panel will assess each GDN's initiatives. Each GDN that meets the minimum requirements will be invited to meet with the Expert Panel and will have at least 15-20 minutes to answer questions from the Panel about their submission. The allocation of the reward is based on an assessment of the GDNs' activities by the Panel.
- 1.8 We provide some guidance to the Panel to assist it in making its recommendations. This takes the format of some high level considerations which the Panel can take into account in its assessment.

The submissions and the Panel for 2015

- 1.9 This year's Panel was made up of experts drawn from a range of UK organisations. The panellists were chosen because of their unique skills and expertise – in particular their specialist knowledge of safety, environmental and social issues. The Panel members were:
 - Sarah Harrison (Panel Chair) – Senior Partner, Sustainable Development, Ofgem
 - Cathryn Ross – CEO, Ofwat (Water Services Regulation Authority)
 - Sarb Bajwa – CEO, IGEM (Institute of Gas Engineers and Managers)
 - Leigh Greenham – Director, CoGDEM (Council of Gas Detection & Environmental Monitoring)
 - Jim Stancliffe – HM Principal Inspector, HSE (Health and Safety Executive)
 - Joanna Whittington – Director of Rail Markets and Economics, ORR (Office of Rail and Road).
- 1.10 At the Panel session, from Ofgem Paul Branston (Associate Partner, Gas Networks), Rupika Madhura (Head of Gas Distribution Policy), and Rhianne Ogilvie (Senior Policy Analyst) were present.

- 1.11 We received submissions from all four GDNs; National Grid Gas Distribution (NGGD); Northern Gas Networks (NGN); Scotia Gas Networks (SGN); and Wales and West Utilities (WWU). The submissions included an individual application in which each company demonstrated performance against the minimum requirements; an individual submission highlighting any work that the GDN has completed individually; and one joint submission to demonstrate collaborative work between the GDNs.
- 1.12 When we established the RIIO-GD1 Gas DRS we specified that a number of minimum requirements must be met by the submissions to be eligible to meet the Expert Panel for further assessment. We did the initial assessment of these minimum requirements in June 2015 and concluded that all companies met the minimum criteria and were therefore eligible to meet the Panel for further assessment of their initiatives.
- 1.13 The submission application form required evidence of how the companies had met the minimum requirements for each of the three categories during the relevant scheme year. Although we asked for a joint GDN submission, the GDNs were reviewed individually to assess whether they had met the minimum requirements.
- 1.14 All companies were invited to attend a question and answer session with the Panel on 16 July 2015.

2. Decision

- 2.1 After assessment of the written submissions and the oral presentations, the Panel made its recommendations to Ofgem on the allocation of rewards to the GDNs.
- 2.2 The Panel agreed that the collaborative report could be improved and developed further. As this is the first RIIO-GD1 Gas DRS, the Panel thought there is room for improvement in the submissions and therefore the rewards should reflect that. Therefore, the panel decided not to award the full £4m.

The Panel recommendations

- 2.3 The Panel recommended allocating rewards for each category as follows:

Category one: Social initiatives

In this category a total of £750,000 was awarded. For the social initiatives the Panel decided that, in particular:

- WWU was rewarded for its leadership on the mapping of off gas grid properties and its 'whole house' approach to delivering a solution for vulnerable community in Bridgend.
- SGN was rewarded for its work on locking cooker valves for vulnerable customers and for its dementia awareness training.
- NGGD was rewarded for its work with the Children's Society and NEA on the research study in Tamworth, and partnership work with Leicester City Council.
- NGN was rewarded for its cross sector working as part of its 'Infrastructure North' project and for its pilot scheme in Bradford to help those in fuel poverty.

Category two: Environmental Outputs

In this category a total of £1.05 million was awarded. For the environmental outputs the Panel decided that, in particular:

- WWU was rewarded for its biomethane work and its approach to re-use treated sludge from gas holders.
- NGN was rewarded for its 'Premier League contractors' initiative and its hydrogen work including the H21 project.
- SGN was rewarded for its biomethane connections and virtual biomethane pipeline.
- NGGD was rewarded for its trials on the use of high pressure plastic pipe and for its established theft of gas team.

Category three: CO safety outputs

In this category a total of £850,000 was awarded. For the CO safety outputs the Panel decided that, in particular:

- WWU was rewarded for its range of initiatives to raise carbon monoxide awareness, including its collaboration with the arts, and its dedication and enthusiasm to deliver these initiatives.
 - NGN was rewarded for its work with specific community groups to raise awareness of CO safety issues, and for developing the iCOP app further.
 - SGN was rewarded for its work with the charity 'Dying to Keep Warm' to develop a training programme for front line care workers.
 - NGGD was rewarded for its partnership work with the fire service and for demonstrating good learning from experiences in the shopping centre initiative.
- 2.4 The Panel also rewarded each of the GDNs with £100,000 to recognise the collaborative work that they have demonstrated. The GDNs presented a range of initiatives in the collaborative report including, establishing a process for the GDNs and IGTs to work together on fuel poor connections; developing the 'Ignite' project which aims to provide access to cheaper alternative forms of energy; and improving CO safety by developing a gas mapping tool showing where dangerous/at risk appliances have been found.

Panel feedback to the GDNs

- 2.5 The Panel thanked all of the GDNs for their work on these initiatives, and encouraged the representatives that attended the Q&A sessions to pass this recognition on to the rest of their businesses. The Panel were impressed with:
- The submissions that demonstrated collaboration with a wide range of stakeholders, working beyond the gas sector.
 - The Panel were also impressed by the GDNs that demonstrated a real enthusiasm for the initiatives that they have developed.
 - The Panel thought that the submissions demonstrated a lot of activity from the GDNs. However, the Panel would have also liked to see more information on the delivery and impact of the initiatives.
 - The Panel also recognised that whilst there were a couple of good demonstrations in the panel sessions on learning and development i.e. showing how the GDNs learned from previous initiatives to help improve current activities, this could have been better reflected throughout the written submissions.
- 2.6 The Panel gave comments for all GDNs to consider for future submissions, which were as follows:
- It is important in the submissions to be clear on how initiatives are over and above any existing funding or regulatory requirements.
 - The GDNs should continue to demonstrate how they are working collaboratively.

- When describing any activities or initiatives (in particular with stakeholders other than the GDNs) it is important to be clear on what the GDN's role was and what role any other parties played.
- It is important to show continuity in future RIIO-GD1 submissions and demonstrate how initiatives have developed since this year's scheme.

2.7 Ofgem also held meetings to provide company-specific feedback to each of the companies after the panel session.

Our decision

2.8 We agree with the panel recommendations and its reasoning for how the rewards should be allocated to the GDNs.

2.9 The final rewards are included in the table below.

Table 1: Rewards allocated for 2013-2015 Gas DRS.

RIIO-GD1 Gas DRS Category	WWU	NGN	SGN	NGGD	Total reward allocated across each category
Social outputs	£200,000	£200,000	£200,000	£150,000	£750,000
Environmental outputs	£400,000	£300,000	£200,000	£150,000	£1,050,00
CO safety outputs	£300,000	£200,000	£200,000	£150,000	£850,000
Collaborative work	£100,000	£100,000	£100,000	£100,000	£400,000
Total rewarded by company	£1,000,000	£800,000	£700,000	£550,000	£3,050,000

Bill impact

2.10 At RIIO-GD1 Final Proposals we allowed up to £4m to be awarded to the companies at each tranche of the DRS. The money rewarded to the GDNs in this scheme will be added to the Licensees' Maximum Distribution Network Transportation Activity Revenue for 2015/16 and will be recovered through customer bills in 2017/18 (two year lag).

Next steps

2.11 The next Gas DRS will take place in summer 2018.