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Making a positive difference
for energy consumers



Supplement to the
RIIO-GD1
Annual Report
2014-15

Contents

| | |
|--|----|
| Industry | |
| Customer | 4 |
| Network company | 5 |
| Gas Distribution Networks Companies | |
| Customer | 6 |
| Network company | 8 |
| Outputs | |
| Annual outputs | 10 |
| RIIO-GD1 outputs | 11 |



RIIO-GD1 is the first price control, along with its transmission equivalent (RIIO-T1), that uses the RIIO (Revenue = Incentives + Innovation + Outputs) price control model. We set out the details of our allowances and the outputs that companies are committed to delivering in our Final Proposals publication in December 2012. The price control began on 1 April 2013 and runs to 31 March 2021.

Annually we publish our annual report on the eight gas distribution network companies' (GDNs) actual performance against their output commitments and allowances. This supplement summarises their performance and supports the annual report.

<https://www.ofgem.gov.uk/publications-and-updates/riio-gd1-annual-report-2014-15>

The GDNs are required to deliver specific outputs as part of the price control arrangements and are incentivised to look continually for new ways to innovate and deliver the outputs at a lower cost than the allowances, benefiting both the companies and their

customers. The GDNs are forecasting to outperform the cost allowances by £2.1 billion (12.5%) over the eight-year period. The companies retain approximately 64% of the incentive earned and are given an allowance for tax due on that incentive. Customers are expected to benefit from the remainder through a reduction in the expected distribution transportation component of an average annual consumer's bill (an overall average reduction of 9.3% is forecast by the end of RIIO-GD1).

Customer

All gas customers pay a bill to their energy suppliers, and one element of this is the gas distribution network cost. The graphics on page 6 represents what gas companies deliver for customers.

Network companies

The gas distribution network companies are responsible for operating, maintaining, extending the network and for providing a 24-hour gas emergency service. We specify in their licences their allowed revenue and standards of performance they must achieve, incentivising good performance and penalising companies for poor performance. Companies have the opportunity to exceed the expected return, this is summarised in the graphic on page 8.

Industry Customer

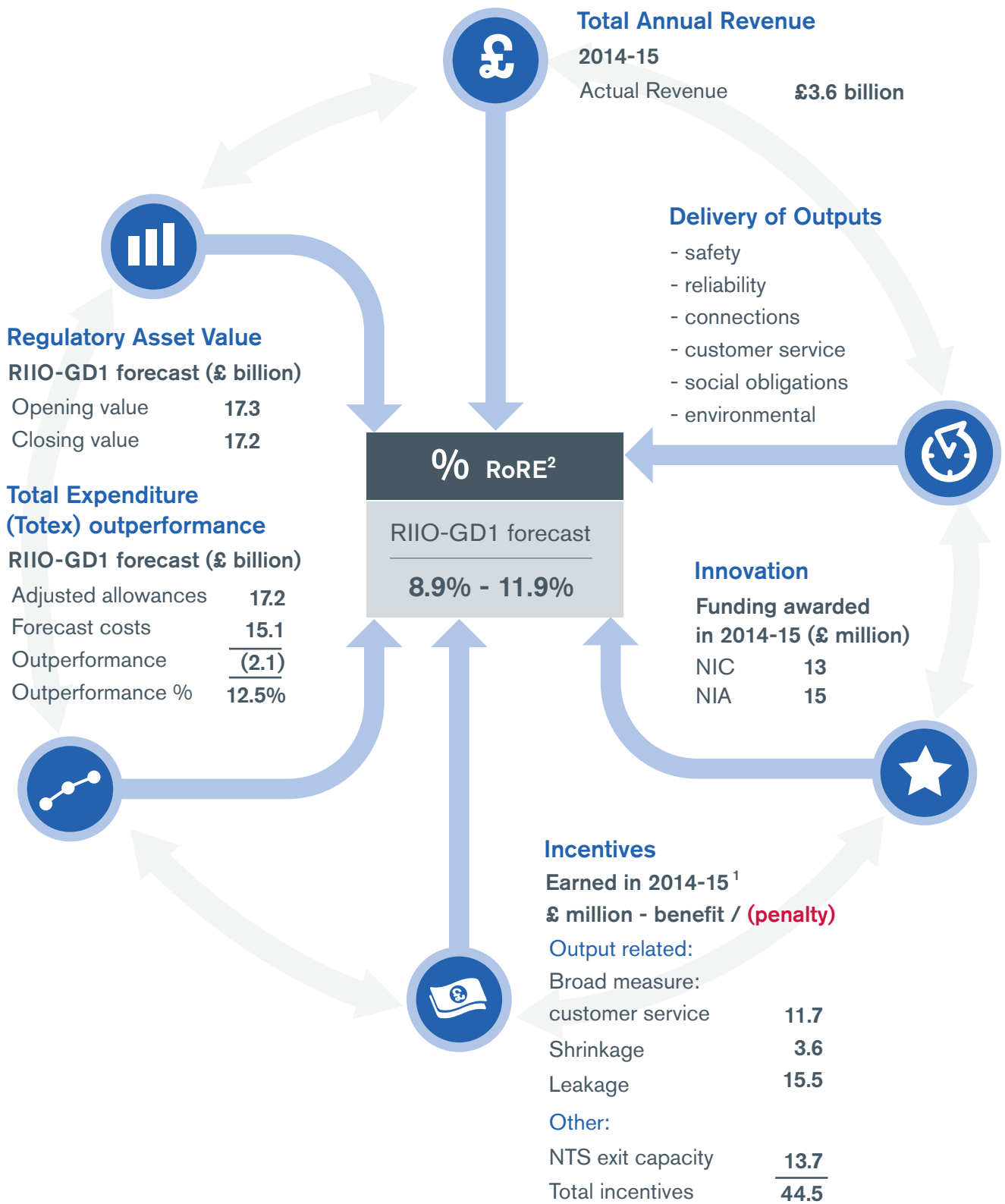


Key

- green ✓ Companies have successfully achieved an annual output or are on-target to meet the eight-year output commitment
- Some companies are at risk of failing the eight-year output commitment
- red ✗ At least one company has failed to achieve an annual output or is forecasting to fail their eight-year output commitment
- Output under review

Industry

Network company

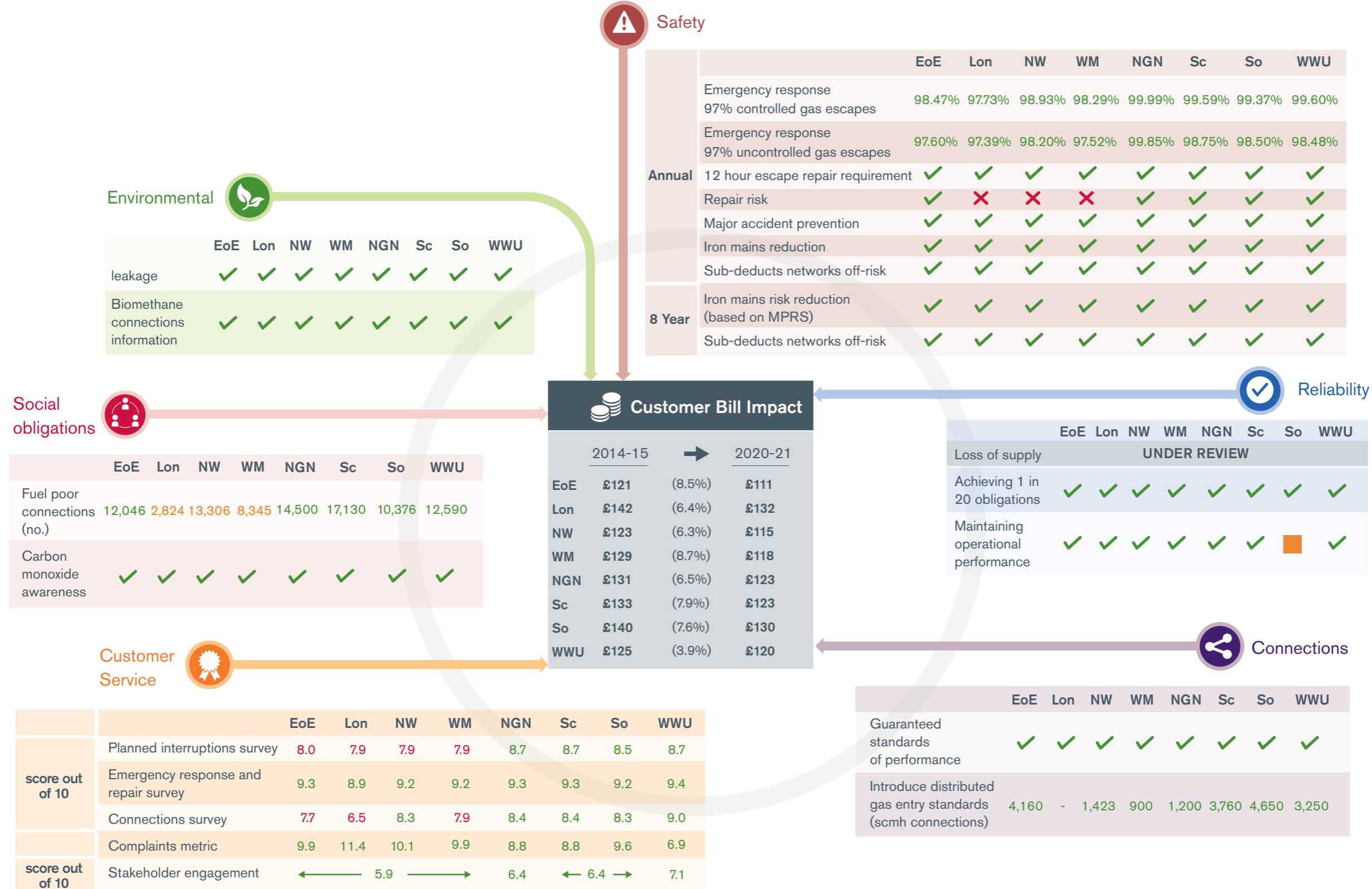


¹ earned in 2014-15 but due to the two year lag this will impact annual revenue in 2016-17

² Return on Regulatory Equity

Gas Distribution Networks Companies

Customer

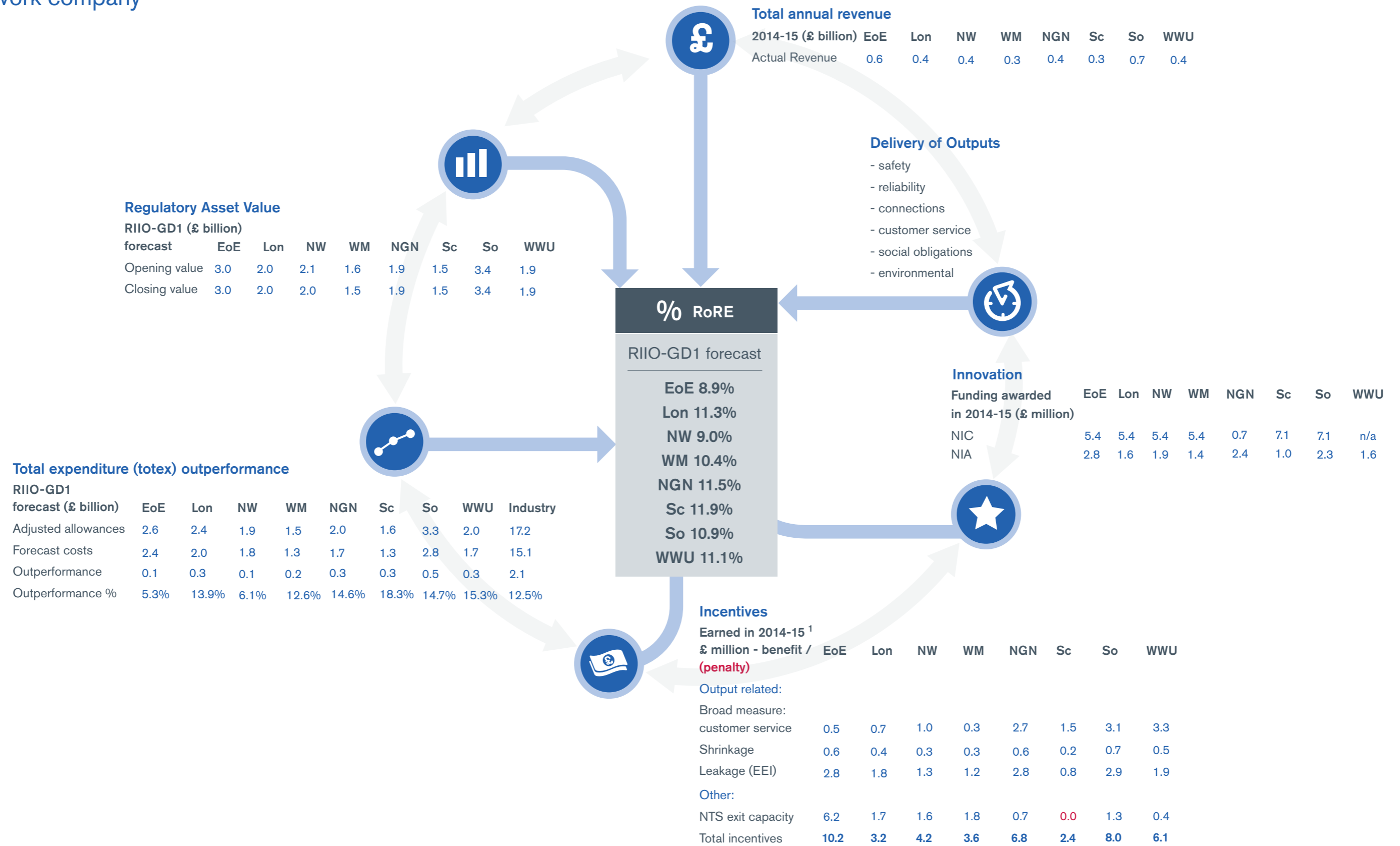


Key

- green ✓ Successfully achieved an annual output or are on-target to meet the eight-year output commitment
- red ✗ Failed to achieve an annual output or are forecasting to fail their eight-year output commitment
- amber ⚠ At risk of failing the eight-year output commitment
- Output under review

Gas Distribution Network Companies

Network company



¹ earned in 2014-15 but due to the two year lag this will impact annual revenue in 2016-17

Outputs

Annual output commitment

| Primary output | Deliverable | Incentive | Unit | EoE | Lon | NW | WM | NGN | Sc | So | WWU |
|---|---------------------------------------|-----------|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Connections | Guaranteed standards performance | n/a | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Environmental | Shrinkage | ↔ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Safety (emergency reponse) | 97% controlled gas escapes | n/a | % | 98.47 | 97.73 | 98.93 | 98.29 | 99.99 | 99.59 | 99.37 | 99.6 |
| | 97% uncontrolled gas escaped | n/a | % | 97.60 | 97.39 | 98.20 | 97.52 | 99.85 | 98.75 | 98.50 | 98.48 |
| Safety (management of repairs) | GS(M) 12 hour escape repair equipment | n/a | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | Management of repairs (Repair risk) | n/a | | ✓ | ✗ | ✗ | ✗ | ✓ | ✓ | ✓ | ✓ |
| Safety (major accident hazard prevention) | GS(M)R Safety case acceptance by HSE | n/a | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | COMAH safety report reviewed by HSE | n/a | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Customer service | Planned interruptions survey | ↔ | ↑ scores out of 10 ↓ | 8.0 | 7.9 | 7.9 | 7.9 | 8.7 | 8.7 | 8.5 | 8.7 |
| | Emergency response and repair survey | ↔ | | 9.3 | 8.9 | 9.2 | 9.2 | 9.4 | 9.3 | 9.2 | 9.4 |
| | Connections survey | ↔ | | 7.7 | 6.5 | 8.3 | 7.9 | 9.0 | 8.4 | 8.3 | 9.0 |
| | Complaints metric | ↓ | | 9.9 | 11.4 | 10.1 | 9.9 | 2.7 | 8.8 | 9.6 | 6.9 |
| | Stakeholder engagement | ↑ | | 5.9 | 5.9 | 5.9 | 5.9 | 5.5 | 6.4 | 6.4 | 7.05 |

Key

green ✓ Successfully achieved an annual output or are on-target to meet the eight-year output commitment

red ✗ Failed to achieve an annual output or are forecasting to fail their eight-year output commitment

↑ Incentive benefit only

↓ Incentive penalty only

↔ incentive benefit and penalty

Outputs

RIIO-GD1 eight year output commitment

| Primary output | Deliverable | Incentive | Unit | EoE | Lon | NW | WM | NGN | Sc | So | WWU |
|--|--|-----------|------------------|---|-------|--------|-------|--------|--------|--------|--------|
| Connections | Introduce distributed gas entry standards | n/a | scmh connections | 4,160 | - | 1,423 | 900 | 1,200 | 3,760 | 4,650 | 3,250 |
| Social obligation | Fuel poor connections | n/a | number | 12,046 | 2,824 | 13,306 | 8,345 | 14,500 | 17,130 | 10,376 | 12,590 |
| | Carbon monoxide awareness | n/a | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Environmental | Shrinkage (leakage) | ↔ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | Provide biomethane connections information | n/a | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Reliability (loss of supply) | Duration of planned supply interruptions | n/a | | This area is under review - refer to chapter 3 Outputs, 'Reliability' | | | | | | | |
| | Duration of unplanned supply interruptions | n/a | | | | | | | | | |
| | Number of planned supply interruptions | n/a | | | | | | | | | |
| | Number of unplanned supply interruptions | n/a | | | | | | | | | |
| Reliability (network capacity) | Achieving 1 in 20 obligation | ↔ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Reliability (network reliability) | Maintaining operational performance | n/a | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ■ | ✓ |
| Safety (mains replacement) | Iron mains risk reduction (based on MPRS) | n/a | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | Sub-deducts networks off-risk | n/a | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Key

green ✓ Successfully achieved an annual output or are on-target to meet the eight-year output commitment

■ At risk of failing the eight-year output commitment

■ Output under review

↔ Incentive benefit and penalty