

Direct Dial: 0141 331 6031
Email: Pete.Wightman@ofgem.gov.uk
Date: 4th October 2018

Decision on the 2018 Gas Discretionary Reward Scheme (DRS)

The DRS incentivises the GDNs to help address a range of environmental, social and carbon monoxide (CO) safety issues. We assess GDNs' DRS submissions three times during the eight year RIIO-GD1 price control, with up to £4 million in rewards available each time. Our assessment is carried out an independent expert panel, chaired by Ofgem.

This letter sets out our decision on the second DRS assessment of RIIO-GD1. Through this assessment we are awarding £2.55 million to the GDNs.

Our assessment process

Our guidance¹ explains the minimum requirements, our assessment process, and the types of initiatives we expect the GDNs to put forward in their DRS submissions.

There are two key submission requirements for the DRS:

1. An application in which each GDN demonstrates its performance against the minimum requirements, as set out in the guidance.
2. A main submission where the GDNs set out their environmental, social and CO safety initiatives in two parts:
 - **An individual submission** to highlight work that the GDN has completed individually.
 - **A joint GDN submission** to outline the work that they have completed collaboratively.

We received DRS submissions from all four licensees in May 2018 and all the submissions met the minimum requirements. The GDNs were then asked to attend a question and answer session with our expert panel. This year's expert panel was made up of experts from a range of backgrounds, chosen for their expertise in safety, environmental and social issues. This year's expert panel members were:

- Meghna Tewari, Head of Vulnerability and Consumer Policy, Ofgem (Chair)
- Dr Jeff Hardy, Senior Research Fellow, The Grantham Institute for Climate Change
- Trisha McAuley, Independent consumer expert
- Isabella Myers, Independent consultant – Health, Policy and the Environment

¹ <https://www.ofgem.gov.uk/publications-and-updates/arrangements-2018-gas-discretionary-reward-scheme-drs-under-riio-gd1>

The GDNs attended the expert panel question and answer session on 21 June 2018.

The expert panel's recommendations

The expert panel was impressed with the following initiatives, which it believed represent best practice:

- Cadent's Safety Seymour initiative, which uses a teddy bear to talk to primary school children in areas with high numbers of reported CO incidents about the dangers of CO and how to spot it. Cadent has shared the campaign with the other GDNs and it has now been rolled out across all four networks.
- Wales and West Utilities' (WWU) work in the area of GP referrals for vulnerable customers, which the panel would like the rest of the industry to move in line with.
- WWU's Energy Pathfinder model, which identifies potential energy solutions while taking into account several different variables including the cost and feasibility. The panel was happy that WWU has now made this model available to the other GDNs.
- Cadent's work with WPD to reduce the impact on customers who experience power outages. The Expert Panel would like to see more cross sector work to combat joint issues.
- SGN's use of TV to spread CO safety measures by providing guidance and advice to TV shows including Coronation Street and Loose Women.
- Northern Gas Networks' (NGN) Warm Hubs were seen as a good example of fixed term GDN investment to build capacity in local communities that results in sustainable benefits for those who are fuel poor or vulnerable.

The expert panel was also particularly impressed with NGN's demonstration of a clear strategy which has been embedded in the culture of the organisation and used to assess which initiatives are chosen. The expert panel recognised this in their recommendation for the reward allocation.

On the other hand, the expert panel thought that many of SGN's initiatives were still in their early stages, so found it was difficult to see the outcomes and impacts of the work. The expert panel recognised this in their recommendation, and provided feedback that they want to see the outcomes of these initiatives at the next DRS.

The expert panel was happy that the GDNs were willing to collaborate and want this to be built upon in the future. However, they thought that there was a lot of duplication across the collaborative and individual submissions. They therefore recommended that we should only award £400,000 for the collaborative submission.

Expert panel feedback to the GDNs

The GDNs were provided with the following general feedback for the next DRS:

- There was a lot of duplication across the collaborative and individual submissions. The expert panel thought that the individual submissions should be clearer on the differences between individual GDN leadership on initiatives and what outcomes are due to collaborative work.
- The expert panel wanted to see a clear strategy to understand how the initiatives were developed and prioritised. The best submissions and presentations were able to demonstrate that a strategy is embedded with the culture of the organisation.
- The expert panel wanted to see the GDNs setting themselves clear, stretching targets. It was thought that the companies should be benchmarking themselves against the other GDNs, wider utilities and energy companies.
- The submissions should have been clearer on what the outcomes of the initiatives have been.

- It is important to be clear how initiatives are over and above any existing funding or regulatory requirements, and how initiatives have developed since the previous DRS round.

Decision on financial rewards for the GDNs

We agreed with the recommendations made by the expert panel and its reasoning for how the rewards should be allocated to the GDNs. The final rewards are included in the table below:

	Environmental	Social	CO safety	Collaborative	Total
NGN	£225,000	£300,000	£275,000	£100,000	£900,000
WWU	£175,000	£150,000	£200,000	£100,000	£625,000
Cadent	£125,000	£150,000	£200,000	£100,000	£575,000
SGN	£100,000	£100,000	£150,000	£100,000	£450,000
Total	£625,000	£700,000	£825,000	£400,000	£2,550,000

The money rewarded to the GDNs in this scheme will be added to the GDNs' 2019/20 revenues.

Next steps

The next Gas DRS will take place in summer 2021, which will cover the work completed during the period between April 2018 and March 2021.

If you have any queries about this letter please contact Rebecca Pickett at Rebecca.Pickett@ofgem.gov.uk.

Yours faithfully,



Pete Wightman
Head of Gas Distribution Policy
Systems & Networks