Governance

Gas Network Vulnerability and Carbon Monoxide Allowance (VCMA) Governance Document

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Overview:

This document is version 2 of the Gas Network Vulnerability and Carbon Monoxide Allowance (VCMA) Governance Document referred to under Special Condition 5.4 of the Gas Transporter Licence.

As part of our continued focus on consumers in Vulnerable Situations, we have implemented a vulnerability and carbon monoxide awareness use-it or lose-it allowance (UIOLI) within RIIO-GD2.

It is the responsibility of each Network Licensee to understand the provisions of this Governance Document and how those provisions apply to it.

Contents

1. Introduction

1.1.   The Vulnerability and Carbon Monoxide (CO) Allowance (VCMA) provides use-it-or-lose-it (UIOLI) funding for GDNs to utilise on VCMA Projects focused on vulnerability and CO safety initiatives that go beyond activities that are funded through another price control mechanism or required through licence obligations.

1.2.   The allowance is set at £60m. Of that £60m, 25% is ring-fenced for collaborative VCMA Projects between GDNs. The remaining 75% is split between each network based on the forecast number of GB domestic gas customers served in the first year of RIIO-GD2.[1]

1.3.   Each network's proportion of the allowance is set out within its Gas Transporter Licence (Special Condition 5.4).

The VCMA Governance Document

1.4.   This document is the VCMA Governance Document and sets out the regulation, administration and governance of the Vulnerability and Carbon Monoxide allowance.

1.5.   In this document, we use the terms 'Ofgem' and 'the Authority' as well as the terms 'we', 'us' and 'our' interchangeably. Ofgem is the Office of the Gas and Electricity Markets. The Authority is the Gas and Electricity Markets Authority and is the governing body of Ofgem, consisting of non-executive and executive members.

Compliance

1.6.   Gas Distribution Networks (GDNs) are required by the VCMA Licence Condition to comply with this document.

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[1] See RIIO-2 Final Determinations - GD annex Table 2: https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator

1.7.   This document in no way relieves affected parties, including GDNs and Project Partners, from their responsibility to ensure ongoing compliance with legislation including competition, data protection, environment and consumer protection laws.

Review

1.8.   Ofgem may from time to time revise this VCMA Governance Document by direction in accordance with the VCMA Licence Condition.

2. VCMA Projects

2.1.   The policy intent of the VCMA is to fund VCMA Projects aimed at supporting consumers in Vulnerable Situations and addressing CO safety issues.

Project portfolio

2.2.   There is no requirement for a GDN's project portfolio to contain a specific percentage split between different types of VCMA Projects. However, the GDN must ensure that its portfolio of VCMA Projects covers a range of activities and is not solely limited to either consumer vulnerability or CO safety initiatives.

2.3.   GDNs are responsible for ensuring that their programmes of work are tailored to the needs of their customers. The portfolio of VCMA Projects should align with the GDN's vulnerability strategy, and should be developed through stakeholder engagement and in conjunction with third party organisations to ensure efficient and effective delivery.

2.4.   There is no minimum size for a VCMA Project. However, the GDNs must ensure that collectively, VCMA Projects fall within their maximum allowed expenditure cap. GDNs may wish to provide additional finance for a VCMA Project outside of the allowances provided within the RIIO-GD2 price control (eg shareholder funded pots).

2.5.   Companies with more than one network must share learning across all of their networks, as appropriate.

Collaborative VCMA Projects

2.6.   To encourage knowledge sharing across the GDNs, 25% of the VCMA is ring-fenced for collaborative VCMA Projects. Collaborative VCMA Projects must involve at least two GDNs.

2.7.   We have made available to each GDN a proportion of the VCMA that is ring-fenced for collaborative VCMA Projects on top of its company specific allowance. In both cases, the available share is based on its forecast percentage of GB domestic gas customers served in the first year of RIIO-GD2. The VCMA for collaborative VCMA Projects that has been provided to each company is set out in the table below.

Table 1: VCMA for collaborative VCMA Projects by company (£m, 2018/19)[2]

Company	2021/22	2022/23	2023/24	2024/25	2025/26	Total[3]
Cadent total	1.49	1.49	1.49	1.49	1.49	7.44
EoE	0.55	0.55	0.55	0.55	0.55	2.74
Lon	0.31	0.31	0.31	0.31	0.31	1.53
NW	0.37	0.37	0.37	0.37	0.37	1.83
WM	0.27	0.27	0.27	0.27	0.27	1.33
NGN	0.34	0.34	0.34	0.34	0.34	1.72
SGN total	0.81	0.81	0.81	0.81	0.81	4.06
Sc	0.25	0.25	0.25	0.25	0.25	1.26
So	0.56	0.56	0.56	0.56	0.56	2.81
WWU	0.36	0.36	0.36	0.36	0.36	1.78
Total	**3**	**3**	**3**	**3**	**3**	**15**

2.8.   The share of the VCMA for collaborative VCMA Projects set out in Table 1 is for administrative purposes only. During a collaborative VCMA Project, a GDN can, as appropriate, transfer some, or all, of its share to other participating GDNs to fund a collaborative VCMA Project for administrative purposes, providing there is a Net Benefit to customers on all the networks involved.

2.9.   The GDNs must decide collectively how the collaborative VCMA should be spent. The GDNs must ensure that the collaborative VCMA is spent across the participating network regions.

Eligibility Criteria

Eligibility criteria for company specific projects (other than condemned boiler repair and replacement)

2.10. In order to qualify as a VCMA Project, a project must:

a) have a positive Social Return on Investment (SROI), including the potential to have a Net Benefit to the customers on the funding GDN's network(s);

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[2] Allowances per year do not have to be spent within each year and can be rolled over.
[3] Subtotals may not add up to sum of line items due to rounding.

    b) either:

        i. provide a direct Net Benefit to consumers in Vulnerable Situations, or

        ii. provide awareness of the dangers of CO, or

        iii. reduce the risk of health issues caused by CO;

    c) have defined outputs or deliverables;

    d) have defined outcomes, where considered appropriate by the GDN;

    e) relate to energy or, CO safety;

    f) go beyond activities that are funded through another price control mechanism or required through licence obligations; and

    g) not be delivered through other external funding sources directly accessed by a GDN, including through other government (national, devolved or local) funding.

Installation of energy efficiency measures

2.11. The installation of energy efficiency measures is not eligible as a VCMA Project.

Eligibility criteria for company specific boiler repair and replacement

2.12. Condemned boiler repairs or replacements are eligible as VCMA Projects where:

    a) a GDN has to isolate and condemn an unsafe boiler following a supply interruption or as part of its emergency service role;

    b) the household cannot afford to repair or replace the boiler; and

    c) sufficient funding is not available from other sources (including national, devolved or local government funding) to fund the boiler repair or replacement.

Eligibility criteria for collaborative VCMA projects

2.13. In order to qualify as a collaborative VCMA Project, a project must:

a) meet the relevant requirements set out in paragraphs 2.10-2.12;

b) have the potential to have a direct Net Benefit to customers on the participating networks; and

c) involve two, or more, gas distribution companies.

Project Registration

2.14. Before starting a VCMA Project, the GDNs must ensure it meets the eligibility criteria and produce a Project Eligibility Assessment (PEA). In the PEA, GDNs must demonstrate that the VCMA Project meets the relevant eligibility criteria set out in paragraphs 2.10 to 2.13 above. For collaborative VCMA Projects, participating GDNs can choose to produce an individual or joint PEA.

2.15. The PEA should be signed by the senior person responsible for implementing VCMA Projects and published to the company's website. GDNs must notify Ofgem each time it registers a project by sending an email to gasnetworks@ofgem.gov.uk.

2.16. The information a GDN must provide in the PEA is set out in Table 2 below.

Table 2: Information required for the registration of VCMA Projects

Information required	Description
Project title	
Funding GDN(s)	The GDN(s) which register(s) the project
For collaborative VCMA Projects: Role of GDN(s)	The specific role(s) of GDN(s) participating in a collaborative VCMA Project
Date	
VCMA Project contact name and number	
Problem(s)	This should outline the problem(s) which is/are being addressed by the VCMA Project.
Scope and Objectives	The scope and objectives of the VCMA Project should be clearly defined including the benefits which would directly impact customers on the

Information required	Description
	participating GDNs' network(s), and where the Net Benefits of the VCMA Projects lie.
Why the Project is being funded through the VCMA	This should include an explanation of why the VCMA Project meets the VMCA eligibility criteria.
Evidence of stakeholder/customer support	This should provide information of the customer engagement that has taken place in the development of VCMA Projects.
Outputs, deliverables, outcomes where appropriate and success criteria	Details of the VCMA Project outputs and deliverables, interim milestones and how the Funding Licensee will evaluate whether the project has been successful. Each output or deliverable should have a proportion of the funding allocated.
Project Partners and third parties involved	Details of Project Partners or third party involvement.
Potential for new learning	Details of what the GDN(s) expect to learn and how the learning will be disseminated.
Scale of VCMA Project	The Funding Licensee(s) should justify the scale of the VCMA Project – including the scale of the investment relative to the potential benefits.
VCMA Project start and end date	
Geographical area	Details of where the VCMA Project will take place. If the VCMA Project is collaborative, the Funding Licensee area(s) in which the project will take place should be identified.
Total funding required	Total funding required for the project.
Remaining amount in the allowance	Remaining funding left in the Licensee's/ Licensees' funding pot.

2.17. The Registration process does not involve Ofgem approving projects.

Annual reporting obligations

2.18. The GDN must produce an annual report on its use of the VCMA and the progress of the VCMA Projects.

2.19. The GDN must send a copy of the annual report to Ofgem and make it available publically on its website by 1 July each year.

2.20. The annual report should include an overview of VCMA use. This should outline how much of the VCMA has been spent, how much is remaining and a breakdown of VCMA Projects funded.

2.21. For each VCMA Project carried out in that Regulatory Year, the annual report should include:

- **Summary of VCMA Project progress:** This should describe the general progress of the VCMA Project against the interim milestones set out in the PEA, any notable outputs or deliverables achieved in the relevant period, and any problems encountered. If a VCMA Project has been completed, this must be indicated clearly.

- **Funding update:** The GDN(s) should report on expenditure (incurred and expected).

- **Update on outputs and deliverables:** This should describe the VCMA Project progress or delivery against the outputs, deliverables, outcomes for customers (where appropriate) and success criteria set out in the PEA, and outline any challenges the GDN may face in the next year in achieving these.

- **Details on any learning and stakeholder engagement**: This should describe any new learning(s) achieved, how the learnings have been disseminated (if appropriate) and details of what stakeholder engagement on the VCMA Project has taken place.

- **Remaining timescales:** This should outline how much time is remaining for the VCMA Project.

2.22. The GDN can choose to report on collaborative VCMA Projects individually or through a joint GDN report, which complies with the requirements set out in this section.

Unspent allowances

2.23. In the event that the full VCMA is not spent by the end of RIIO-GD2, the unspent proportion of the allowance will be returned to customers via the mechanism set out in Special Condition 5.4 of the GDNs' Gas Transporter licence. If funding has been transferred as part of a collaborative VCMA Project, this must go back to the original GDN first.

2.24. In the event that any funding claimed for an eligible VCMA Project is not spent by the end of the project, it must return to its VCMA.

3. Annual showcase event

3.1.   The GDN must collectively with such other GDNs as are required to comply with this Governance Document organise an annual conference. The annual conference will be held every Regulatory Year for GDNs, Ofgem, Project Partners, and interested third parties including charities and local innovators. The GDN must highlight the key outcomes that have been achieved by the GDN since the previous annual conference. It is also an opportunity for GDNs and stakeholders to showcase work and present ideas including, but not limited to, future projects to support consumers in Vulnerable Situations.

3.2.   The annual showcase should be a national event, held in a different network each year. We also encourage GDNs to carry out smaller events for their regional stakeholders. Due to the disruption caused by Covid-19, events can be held online if necessary.

3.3.   The GDNs must, at a minimum, present on the following areas at the annual showcase event:

   a) progress and outcomes of VCMA Projects;

   b) how they have supported Priority Services Register (PSR) customers in the previous year, including outlining the current:

      i.   PSR reach by needs code; and
      ii.   number and type of services provided to PSR customers;

   c) how they have targeted fuel poor households for the purposes of FPNES; and

   d) what they have done to improve CO safety and awareness.

3.4.   GDNs can use collaborative VCMA funding to cover the efficient cost to the Licensees' of organising the conference.

3.5.   GDNs will be responsible for the format of the annual conference. However, when organising the annual conference, the GDNs must engage with stakeholders, including but not limited to Citizens Advice and Citizens Advice Scotland, on the agenda and arrangements to ensure that it effectively shares best practice and learnings.

4. Glossary

Net Benefit

For there to be a Net Benefit, the relevant consumers must receive a net gain (that is quantifiable through Social Return on Investment in financial terms) to their position immediately before the reallocation of price control revenues, that is in excess of the funds that consumers are paying for the cost of the output, even if that Net Benefit takes time to materialise.

Project Partners

means a third-party organisation that makes a contribution which is related to the success of the VCMA Project.

Regulatory Year

means a period of twelve months commencing on 1 April at 05:00 and ending on the following 1 April immediately before 05:00.

VCMA Projects

means projects that meet the eligibility criteria set out in the VCMA Governance Document.

Vulnerable Situations

has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).