

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

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Date: 8 February 2018

Dear Stakeholders

Arrangements for the 2018 Gas Discretionary Reward Scheme (DRS) under RIIO-GD1

The Gas DRS encourages gas distribution network companies (GDNs) to help address a range of social, carbon monoxide safety, and environmental issues.

Every three years GDNs can apply for rewards for initiatives they have undertaken. With the support of an independent panel, we review the GDNs' submissions and determine whether and by how much to reward the GDNs. The DRS has a maximum reward of £12m available to all the GDNs over the eight-year RIIO-GD1 period.

The first RIIO-GD1 Gas DRS took place in 2015 and the next one will take place in 2018. The maximum reward available for the 2018 assessment is £4m, across all the GDNs.

In Annex 1 we set out guidance on how we will run the DRS this year. This is broadly consistent with the 2015 guidance.

The deadline for GDNs to send us their submission is 4 May 2018. These should be sent by email to gasnetworks@ofgem.gov.uk. We expect to hold the panel sessions in June or July.

If you have any queries in relation to this letter please contact Ayesha Uvais by email (Ayesha.Uvais@ofgem.gov.uk) or on 020 7901 7131.

Yours faithfully



Pete Wightman
Head of RIIO Gas Networks

Annex 1 – Guidance on applying for the RIIO-GD1 Discretionary Reward Scheme (DRS) and our approach to assessing submissions in 2018

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. Carbon monoxide (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

There are two key requirements in the application process for the DRS:

1. Submission of an application that demonstrates performance against the minimum requirements (see below). The application form will be a standard template with text fields to briefly explain how the minimum requirements have been met and how they are linked to their main submission.
2. A main submission setting out those initiatives in the environmental, social and safety areas that the applicants are presenting 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.** The GDNs should 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 Friday 4 May 2018**. All submissions should be emailed to gasnetworks@ofgem.gov.uk.

Minimum requirements

We require evidence of how each company has met the minimum requirements. Although we ask for a joint GDN submission, each GDN's minimum requirements will be assessed individually. The minimum requirements are that:

- The GDN has robust project management processes in place, appropriate resources and buy in at a senior level within its organisation to ensure commitment to the initiatives proposed,
- The GDN has performance indicators in place which monitor the impact of its initiatives,
- The GDN's 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
- The GDN has engaged with relevant stakeholders and can provide evidence of an existing engagement strategy which informs the development of initiatives and allows the GDN to understand its 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 2015-16, 2016-17 and 2017-18. Cadent and SGN 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 submission 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 have their applications forwarded to the DRS expert panel.

Assessment by the DRS expert panel

An independent panel will assess each GDN's submissions. GDNs will qualify for assessment by the panel only if they meet the minimum requirements. We will ask the panel to take into account whether the GDNs have responded to the feedback that they received at the last Gas DRS.¹

¹ See paragraph 2.6:

https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/gas_drs_decision_document_2013-2015.pdf

Differences between Gas DRS and Stakeholder Engagement Incentive

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

The delivery of environmental and social objectives should be underpinned by a coherent stakeholder engagement strategy. We therefore understand that some DRS activities are likely to be included in the Stakeholder Engagement submission. However, the Stakeholder Engagement Incentive assesses 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. The Gas DRS assesses whether the GDNs' activities to deliver social, carbon monoxide and environmental outputs represent best practice, are part of a holistic approach and best serve the interests of customers. 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.

Feedback

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 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 4 May 2018**. They should be sent electronically to gasnetworks@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		

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' 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.		