Governance

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

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Overview:

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. The purpose of this document is to set out the regulation, administration and governance of the Vulnerability and Carbon Monoxide Allowance, and to obligate the Gas Distribution Networkss to hold an annual showcase event.

It is the responsibility of each Network Licensee to understand the provisions of this Governance Document and how those provisions apply to it. This Governance Document comes into effect on 1 April 2021.

This document is version 12 of the Gas Network Vulnerability and Carbon Monoxide Allowance (VCMA) Governance Document referred to under Special Condition 5.4 of the Gas Transporter Licence.

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 ~~an~~other price control mechanism~~s~~ 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 <u>Gas Distribution Networks (</u>GDNs<u>)</u>. 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] <u>and can be used either individually or in collaboration with other</u> <u>GDN's.</u>

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

<u>1.4.</u>   This document is the VCMA Governance Document. ~~and~~<u>It</u> sets out the regulation, administration and governance of the ~~Vulnerability and Carbon Monoxide allowance~~<u>VCMA and takes effect from 1 April 2021</u>.

~~1.4.~~<u>1.5.</u>   <u>It also includes obligations for GDNs to hold an annual showcase event to present their VCMA Projects and other key vulnerability metrics to stakeholders.</u>

~~1.5.~~<u>1.6.</u>   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

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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

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

1.7.1.8.   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

1.8.1.9.   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, which we expect to be maintained and updated within the RIIO-GD2 period, 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~~ funding for a VCMA Project outside of the allowances provided within the RIIO-GD2 price control (eg shareholder funded pots).

~~2.5.1.1.~~   ~~Companies with more than one network must share learning across all of their networks, as appropriate.~~

Collaborative VCMA Projects

2.5.   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 at a company level. Companies with more than one network must share learning across all of their –networks, as appropriate, through their Company Specific VCMA Project allowance.

2.6.   ~~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 ~~C~~Collaborative VCMA Projects that has been provided to each company is set out in the table below.

Table 1: VCMA for ~~c~~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**

2.7.   The share of the VCMA for ~~c~~Collaborative VCMA Projects set out in Table 1 is for administrative purposes only. During a ~~c~~Collaborative VCMA Project, a GDN can, as appropriate, transfer some, or all, of its share to other ~~participating~~ GDNs to fund ~~a~~the ~~c~~Collaborative VCMA Project ~~for administrative purposes~~, providing there is a ~~Net B~~benefit to ~~customers~~ gas consumers on all the networks involved.[4]

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

Eligibility Criteria

Eligibility criteria for company specific projects (other than condemned ~~boiler~~ essential gas appliance repair and replacement)

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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.
[4] Please note that a transfer in this context does not mean an adjustment to allowed revenues.

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

a) have a positive, or a forecasted positive, Social Return on Investment (SROI) including for the gas consumers funding the VCMA Project; , including the potential to have a Net Benefit to the customers on the funding GDN's network(s);

b) either:

   i.   provide a direct Net Benefitsupport to consumers in Vulnerable Situations and relate to energy safeguarding, or
   ii.   provide awareness of the dangers of CO, or
   iii. reduce the risk of health issues harm caused by CO;

c) have defined outcomes and the outputs or deliverablesassociated actions to achieve these;

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

e) relate to energy or, CO safety;

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

g)e)   not be delivered through other external funding sources directly accessed by a GDN, including through other government (national, devolved or local) funding.[5]

Installation of energy efficiency measures

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

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[5] If part, but not full, funding is available through an external funding source for an eligible project, VCMA funding can be used for the remaining amount.

2.10.2.11.   For the avoidance of doubt, the provision of income, debt and energy efficiency advice is permitted, subject to it meeting the eligibility criteria set out in this document.

Eligibility criteria for company specific ~~boiler~~ essential gas appliance servicing, repair and replacement

2.11.2.12.   In order to qualify as a VCMA Project, ~~Condemned boiler~~ unsafe pipework and essential gas appliance[6] servicing, repair~~s~~ or replacement~~s~~ ~~are eligible as VCMA Projects where~~must meet the following criteria:

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

b) the household cannot afford to service, repair or replace ~~the boiler~~unsafe pipework or the essential gas appliance; and

c) sufficient funding is not available from other sources (including national, devolved or local government funding) to fund the ~~boiler~~ unsafe pipework or the essential gas appliance servicing, repair or replacement.

Eligibility criteria for collaborative VCMA projects

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

a) meet the relevant requirements set out in paragraphs 2.9~~10~~-2.12;

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

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

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[6] Essential gas appliances are gas fuelled heating systems (including gas boilers and gas fires), and gas cookers.

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 2.9~~10~~ to 2.13 above. For collaborative VCMA Projects, participating GDNs can choose to produce an individual or joint PEA.

~~2.13.~~2.15.   If an individual VCMA Project expands into a collaborative VCMA Project, the collaborative project should be registered as a new project by producing an updated PEA.

~~2.14.~~2.16.   The PEA should be signed by the senior person responsible for implementing VCMA Projects and published to the company's website or a central website shared by the GDNs. GDNs must notify Ofgem each time it registers a project by sending an email to ~~gasnetworks~~vcma@ofgem.gov.uk.

~~2.15.~~2.17.   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 ~~c~~Collaborative VCMA Projects: Role of GDN(s)	The specific role(s) of GDN(s) participating in a collaborative VCMA Project
Date of PEA submission	
VCMA Project contact name, email and number	
Total cost (£k)	
Total VCMA funding required (£k)	
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 B~~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 where appropriate. If there is no evidence of stakeholder engagement or customer support, this should justify why it was not appropriate to engage with stakeholders and customers.
~~Outputs~~ , Outcomes, ~~D~~deliverables, outcomes where appropriate associated actions, and success criteria	Details of the VCMA Project ~~outputs and deliverables~~outcomes and the associated actions to achieve these, interim milestones and how the Funding Licensee will evaluate whether the project has been successful. Each ~~output or deliverable~~action 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 and SROI calculations	The Funding Licensee(s) should justify the scale of the VCMA Project – including the scale of the investment relative to its potential benefits. As part of this, it should provide the SROI calculation.
VCMA Project start and end date	Detail start and end date of the VCMA Project and, where relevant, the VCMA Project that preceeded this initiative.
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.~~

Information required	Description
Remaining amount in the allowance at time of registration	Remaining funding left in the Licensee's/ Licensees' funding pot.

2.16.2.18.   The Registration process does not involve Ofgem approving projects, and the VCMA Projects will be registered when the GDN publishes the PEA on its website or a central website shared by the GDNs. In the event that Ofgem finds that a registered VCMA Project does not meet the Eligibility Criteria or any other requirements set out in this document, we reserve the right to claw back the associated funding through the use it or lose it mechanism.

Annual reporting obligations

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

2.18.2.20.   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.

2.21. 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 and an overview of how the GDN has engaged with its stakeholders on the use of the allowance.

2.19.2.22.   We expect this document to be brief and to refer to where further detail on VCMA Projects can be found.

2.20.2.23.   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 deliverablesoutcomes or actions 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~~outcomes and associated actions:** This should describe the VCMA Project progress or delivery against the ~~outputs, deliverables,~~ outcomes, ~~for customers (where appropriate)~~ associated actions 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 where appropriate.

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

~~2.21.~~2.24.   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

~~2.22.~~2.25.   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.

~~2.23.~~2.26.   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~~ showcase event. ~~will be held every Regulatory Year~~The event is for interested stakeholders including charties, local innovators, ~~for~~ GDNs, ~~Ofgem,~~ Project Partners and Ofgem. ~~, 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~~showcase event. 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 event should be a national event, held in a different network region 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 a minimum at the annual showcase event:

   a) progress and outcomes of VCMA Projects;

   b) how they have supported Priority Services Register (PSR) needs~~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. They do not need to register a PEA for this, but should report on spend through through the Regulatory Reporting Pack (RRP).

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 deliverableoutput, 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).