



Making a positive difference  
for energy consumers

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

Direct Dial: 0207 901 7302

Email: [Thomas.Mackenzie@ofgem.gov.uk](mailto:Thomas.Mackenzie@ofgem.gov.uk)

Date: 12/03/2021

Dear Stakeholders,

## **Arrangements for the 2021 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 to what extent 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, the second in 2018, and the next one will take place in 2021. The maximum reward available for the 2021 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 2018 guidance.

The deadline for GDNs to send us their submission is 7 May 2021. These should be sent by email to [gasnetworks@ofgem.gov.uk](mailto:gasnetworks@ofgem.gov.uk). We expect to hold the panel sessions in June.

If you have any queries in relation to this letter please contact [Rebecca.Pickett@ofgem.gov.uk](mailto:Rebecca.Pickett@ofgem.gov.uk).

Yours faithfully,

**Thomas Mackenzie**  
**Head of RIIO Gas Distribution Policy**

# **Annex 1 – Guidance on applying for the RIIO-GD1 Discretionary Reward Scheme (DRS) and our approach to assessing submissions in 2021**

## **Governance Arrangements**

We have listed below the type of initiatives we expect GDNs to put forward for potential reward under each output area. This is not an exhaustive list and GDNs should not consider themselves limited to the examples we have provided. The initiatives should not have been funded or incentivised through other areas of the price control or other incentive schemes.

### **1. Environmental outputs -**

- Initiatives that show commitment to delivering Net Zero/environmental objectives within the company's daily operations.
- Initiatives that display an innovative approach to network development/planning for Net Zero (eg developing standards of service for connecting bio-methane producers, hydrogen and/or other low carbon technologies to the network).
- Initiatives that tackle the environmental impact of gas distribution activities (e.g. leakage/shrinkage).

### **2. Social outputs -**

- Development of energy solutions and safeguarding for the fuel poor and consumers in vulnerable situations.
- Initiatives that facilitate sustainable energy solutions to the fuel poor and consumers in vulnerable situations, for example 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 consumers in vulnerable situations and fuel poverty 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 form that demonstrates performance against the minimum requirements (see below). The application form is provided in Appendix 1. It is a standard template, in which to explain briefly how the minimum requirements have been met and how they are linked to the main submission.
2. A main submission setting out those initiatives in the environmental, social and safety output 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 and be clear why the initiative is not business as usual and how it goes beyond any funding provided through other areas of the price control or other incentive schemes. We would like the GDNs' main submission in two parts.

- a. **A joint GDN submission.** The GDNs should submit a joint entry (maximum four A4 pages per output area) 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 (maximum two A4 pages per output area) – 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 main submission 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 7 May 2021** and emailed to [gasnetworks@ofgem.gov.uk](mailto: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:

1. 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,
2. The GDN has performance indicators in place which monitor the impact of its initiatives,
3. The GDN's initiatives presented its submission:
  - a. show a measureable improvement from those previously put forward in the DRS, and
  - b. have not been funded or incentivised through other areas of the price control or other incentive schemes, and
4. 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 local distribution areas. The activities should have taken place during 2018-2019, 2019-2020 and 2020-2021.

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.<sup>1</sup>

### Question and Answer session

Those GDNs that pass minimum requirements will be invited to attend a 20-30 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 following the panel assessment.

### Panel composition

The panel will be composed of up to four members, including an Ofgem Chair. 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. Our decision will be published following the panel assessment, by 31 November 2021.

## **Differences between Gas DRS and Stakeholder Engagement Incentive (SEI)**

We consider that while the Gas DRS complements the SEI, 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 SEI submission. However, the SEI assesses a wider range of activities than just those related to the delivery of social and environmental outputs.

The SEI and Gas DRS also have different focuses. The SEI assesses whether the GDNs' stakeholder engagement activities are innovative, embedded in the business and supported by robust project management and 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.

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-rnio-qd1-gas-discretionary-reward-scheme-2015-18>

## Appendix 1: Application form

GAS DISCRETIONARY REWARD SCHEME	
<div><p>Making a positive difference for energy consumers</p></div> <div><b>GAS DISCRETIONARY REWARD SCHEME APPLICATION FORM</b></div>	
COMPANY DETAILS: (please complete)	CONTACT DETAILS: (please complete)
Company: Licensee(s):  Address:  Postcode:	Name:  Title:  Telephone:  Email:
<b>THE RULES:</b>	
<ol style="list-style-type: none"><li>1. Refer to the accompanying guidance notes to the Gas Discretionary Reward Scheme.</li><li>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.</li><li>3. Complete applications must be received at Ofgem by <b>no later than 5pm on 7 May 2021</b>. They should be sent electronically to <a href="mailto:gasnetworks@ofgem.gov.uk">gasnetworks@ofgem.gov.uk</a>.</li></ol>	

<b>MINIMUM REQUIREMENTS</b>		
<b>Please provide supporting evidence and high level overview of how your company has met the minimum requirements set out below:</b>	<b>Any evidence submitted within submission</b>	<b>Overview of your arguments demonstrating compliance with requirement. Clearly signpost as to additional relevant evidence/information within submission</b>
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		

<b>MINIMUM REQUIREMENTS</b>		
<b>Please provide supporting evidence and high level overview of how your company has met the minimum requirements set out below:</b>	<b>Any evidence submitted within submission</b>	<b>Overview of your arguments demonstrating compliance with requirement. Clearly signpost as to additional relevant evidence/information within submission</b>
<p>The GDN's initiatives presented in its submission:</p> <ul style="list-style-type: none"> <li>a. show a measureable improvement from those previously put forward in the DRS, and</li> <li>b. have not been funded or incentivised through other areas of the price control or other incentive schemes</li> </ul>		
<p>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</p>		