**Background**

**R**

**Revenues** set for 8 years by Ofgem. Only change is through agreed uncertainty mechanisms, automated financial updates & mid point review

**I**

**Incentives** can lead to financial rewards or penalties depending on performance during the price control period. Most incentives +/- 1% of base revenue

**I**

**Innovation** funding is provided to enable trials of new technologies and operating practices on the network. Some funding is up front, the rest available through annual competitions

**O**

**Outputs** are set up front with funding to meet them. Companies reporting annually against outputs and are subject to rewards/penalties
Operational Environment

Number of UK Gas DSOs
8 Licence Network Areas
4 DSO Companies

DSO Market Share

Gas Distribution

- SGN
- Northern Gas Networks
- National Grid
- Gas Networks England
- Wales & West Utilities
- SGN

Map showing distribution of gas networks across the UK.

- WWU: 11%
- NGGD: 50%
- SGN: 26%
- NGN: 12%

The Voice of the Networks
Innovation as Part of RIIO

- Network Innovation Competition
- Network Innovation Allowance
- Innovation Roll Out Mechanism
Gas Networks Innovation Competition

Network Innovation Competition (NIC)

• Opportunity to compete for funding
  • New technologies
  • New operating regimes
  • New commercial arrangements
• Provided environmental benefits
• Reduces Costs
• Aides Security of Supply
• Up to £18m per annum
2013 Gas NIC Projects

SGN
- Opening up the Gas Market (£1.9m)
- Robotics (£6.5m)

Northern Gas Networks
- Low Carbon Gas Preheating (£4.8m)

National Grid Gas Distribution
- BioSNG Demonstration Plant (£1.9m)
2015 Gas NIC Projects

SGN

• Real Time Gas Networks (£7.1)

Northern Gas Networks

• CITY CNG (£700,000) partial funding granted

National Grid Gas Distribution

• Commercial BioSNG Demonstration Plant (£5.4m)
Gas Networks Innovation Allowance (NIA)

- Limited funding to use for two purposes
  - Smaller technical, commercial or operational projects with the potential to deliver financial benefits; and/or preparation of submissions to the NIC
  - NIA is granted as a % of allowed revenue between 0.5% and 0.7% annually, set at the time of the price control settlement.
Gas Networks Innovation Allowance

Network Innovation Allowance (NIA)

2014
Around 170 Projects spending £12.6m

2015
Around 220 projects spending £18.9m
The IRM is a ‘Revenue Adjustment Mechanism’ that enables companies to apply for additional funding within their price control period for the rollout of initiatives with demonstrable and cost effective low-carbon or environmental benefits.

- The IRM is intended to facilitate the roll-out of proven innovations, which will provide long-term value for money to customers, in advance of the next price control period. To qualify roll-outs must deliver carbon and/or environmental benefits.

- There will be two reopener windows and the mechanism will be subject to the materiality threshold.
Innovation with a small “I’

• Totex Incentive
• Discretionary Reward Scheme
• Other Incentives
  – Broad Measure of Customer Service
  – Shrinkage
Future Role of Gas
Understanding the Scale of the Challenge

- The energy Market is getting more complex
- A multi-vector perspective
- Structure of government interventions
- Local or national energy provision
- Need to consider the role for heat
- The decarbonisation road maps to 2030 and 2050
- Quantify the costs and benefits of the potential solutions
- Networks have a significant role to play here
Future Challenges

Future Sources
- Shale
- Biomethane
- Bio SNG

Future Uses
- CNG Vehicles
- Hydrogen Networks
- Power to Gas