

People, pipes, passion.

Our Stakeholder Report 2014



Great things are in the pipeline



Northern Gas Networks (NGN) is the North of England's gas distributor.

We own and maintain the vast underground pipe network which keeps homes and businesses in the North East, Northern Cumbria and much of Yorkshire cooking on gas.

This report describes simply and clearly, our activities, achievements and challenges over the past year.

If you are a local authority, charity, community group, education or training provider, business or a domestic customer, we think you'll find something of interest in the pages that follow.

After all, we're as much about people as we are about pipes. As a major employer, and a highly visible service provider, we have an important role to play in the social and economic prosperity of our region.

Whether we're playing our part in helping to lift customers out of fuel poverty, educating households about the dangers of Carbon Monoxide, paving the way for new sustainable fuels such as biogas, or providing training opportunities in deprived areas, we have a broad reach, and an ambitious social agenda.

If you have any questions, or spot an opportunity to work together, please don't hesitate to get in touch.

Email: stakeholder@northerngas.co.uk



Starting
as we mean
to go on

A milestone year

2013/14 was an especially significant year for Northern Gas Networks.

It was the first year of a new eight year contract we have to deliver gas to our customers across the North of England.

The new contract uses a financial reward and penalty based system to drive great performance. It holds gas distributors to greater account than ever before, with everything from safety performance to social obligations assigned demanding targets.

The heat was certainly on, but I'm delighted to report that we performed extremely well, meeting or exceeding the majority of our key targets.

From taking the number one industry spot for customer satisfaction to generating significant cost savings, we had an extremely successful year.

For many of our customers, our success goes unnoticed, and that's how it should be. Good performance from us means a reliable network with fewer interruptions to supplies – allowing homes and businesses to get on with the things that matter to them.

For others, our interventions were highly significant. Our work to protect the region from Carbon Monoxide poisoning, through new technology and education, undoubtedly helped to save lives. Our partnership driven approach to fuel poverty helped to bring affordable warmth to more than 1,000 customers in financial difficulty, and our training outreach work opened the door of opportunity for young people in some of our most deprived communities.

In the year ahead, we'll build on these achievements by continuing to focus on people, as well as pipes, in everything we do.

Mark Horsley
Chief Executive Officer

All
about
us

The numbers really do add up

What we do

As the North of England's gas distributor, it's our job to transport gas safely to 2.7 million homes and businesses across the North of England.

Our customers live and work in the North East, Northern Cumbria and much of Yorkshire. During periods of peak demand, we transport four times as much energy as the electricity networks.

Safety, reliability, integrity and great customer service are at the heart of our business. On average, a customer suffers an interruption to their gas supply just once every 40 years. And if something does go wrong, we're quick to put it right.



Number 1

our industry ranking
for customer satisfaction



2.7 million

the number of customers we serve

£330m

the amount we generate each
year for the region's economy
by stimulating employment and
consumer spending



**Best for
innovation**

Ofgem awarded us the best
innovation strategy for RIIO

37,000km

the length of our network



51

the number of targets we are measured against under RIIO



Regulation and targets

Ofgem, the energy regulator, monitors our performance. RIIO (Revenue = Incentives + Innovation + Outputs) is the new, eight year contract we have with our customers.

The new contract ensures gas distributors deliver a safe, efficient and value for money service. Performance is measured against a wide range of targets (51 to be exact) some of which need to be met or exceeded in order to earn revenue or avoid financial penalties.

The targets are split into six key areas: safety, reliability, customer service, environment, connections and social obligations. Keep reading to find out how we did in 2013/14!

Our part of the bill

Customers pay for our gas distribution services through their energy bills. Around £134 of an average annual gas bill covers distribution costs. That's 17% of the average bill.

The good news for customers in the North of England is that thanks to the efficiency savings we made in 2013/14, £13 million will be knocked off the cost we charge suppliers for transporting gas through our pipes from 2015/16, helping to keep distribution costs as low as possible for our customers.



£13 million

handed back, helping to keep distribution costs as low as possible for our customers

Performance highlights

Key achievements in 2013/14 included:

- **Cost savings:** we generated significant cost savings against our expenditure allowance for the year. £13 million of these savings will be passed back to the customer, through their gas supplier.
- **Number one for customer service:** we took the top spot among gas distributors for customer satisfaction, based on Ofgem customer surveys.
- **Arriving on time:** we beat our targets for arriving at gas escapes within statutory times, narrowly missing a 100% success rate.
- **Less time off gas:** we reduced the length of time that customers were left without gas due to emergency repair work or planned improvement work.
- **People as well as pipes:** we met and exceeded some of our social obligations, by helping to support some of our most vulnerable customers and playing our part in protecting the region from Carbon Monoxide (CO) poisoning.
- **Easier connections:** we dramatically improved the service customers receive when they apply for a new private gas connection.
- **Leakage reduction:** we significantly reduced the amount of gas lost due to pipe leaks – an important environmental issue, as gas escapes contribute to the build-up of harmful greenhouse gases in the atmosphere.
- **New for old:** we beat our targets for replacing old gas mains deemed 'at risk' due to their likelihood to cause leaks or interruptions to normal service.



Safe and sound

Working smarter to stop leaks in their tracks

Providing a safe and reliable gas service to our 2.7 million customers is our overriding priority.

We invest heavily in our pipe network, replacing old metal pipes which are more prone to leaks with more durable plastic equivalents. Investment is carefully targeted so that we spend money where it will deliver the greatest customer benefit.

In 2013/14 we were comfortably ahead of key network investment targets, such as the replacement of pipes that posed a safety risk (due to age, history of leaks etc).

Unfortunately, gas escapes do still happen. Our experienced engineers are on hand, 24 hours a day, to tackle them when they occur. If you live in the North of England and phone the National Gas Emergency number – 0800 111 999 – the chances are it will be an NGN engineer who arrives.

In 2013/14 we exceeded our targets for attending gas escapes within the statutory one hour (for escapes needing immediate attention) or two hours (controlled escapes which present no immediate risk).

When we arrived at the scene, on most occasions we did an outstanding job of getting the gas back on quickly for customers, comfortably outperforming our targets in this area. We also managed to reduce the total number of these incidents, compared to last year.

Even though we've made progress, we know there's more to do. Losing gas, even for a short period, is enormously disruptive for customers. That's why we're exploring new ways to keep customers on supply when things go wrong – such as using bottled or stored gas to maintain supplies, even while our engineers are working on the repair.



3

**million
minutes**

the amount of time
we shaved off unplanned
interruptions to gas supplies,
against our target

494

kilometres

the length of 'at risk' iron gas
main replaced in 2013/14

99.97%

the percentage of controlled gas escapes
responded to within the statutory two hours



99.85%

the percentage of uncontrolled
(i.e. needing immediate attention)
gas escapes responded to within
the statutory one hour

9/10

we beat or are on track with
9 out of 10 of our reliability targets,
and are working hard to improve
where we fell slightly short



62.3%

the percentage of repairs
completed within 12 hours



11/13

we exceeded or met 11 out of 13
of our regulatory safety targets

Local heroes

When it comes to replacing gas mains, we've bucked the industry trend by appointing small, local firms, alongside big, multinational contractors.

As well as being more cost-effective, these firms know the streets they are working on like the back of their hands – ensuring a speedier, less disruptive service for the public.

Contracts worth £50 million have been awarded to these firms in the past two years and we now have 31 small contractors on our books – creating and safeguarding local jobs.



Service with a smile

**Delivering
gas is our job.
A happy
customer is
our mission**

We've been engaged in a transformative business process in recent years to put the customer at the heart of everything we do.

On the streets, this means we are doing more than ever before to minimise the impact of our mains replacement or repair work. We've employed new Customer Care Officers to engage with local homes and businesses on the doorstep prior to work commencing, piloted new technology to reduce the number of holes we need to dig, and made sure every engineering colleague takes personal responsibility for keeping customers happy and informed.

In our call centres, we've set ourselves the challenging target of agreeing a resolution to 90% of complaints or issues within an hour – way beyond the regulatory target set by Ofgem.

We've worked hard to improve the public's understanding of who we are, and what we do, by making our customer information leaflets simple and engaging; launching a new, customer focused website; rebranding our vans and using social media to talk to customers about everything from mains replacement schemes to staff charity events.

The approach is working. We were ranked in first place in 2013/14 for customer satisfaction, based on Ofgem's customer satisfaction surveys. We also gained a coveted ServiceMark from the Institute of Customer Service, following a rigorous audit of our business.

We scored
83.1

The UK Institute of Customer Service scored us 83.1 for customer satisfaction

Customers scored us
9.25 out of 10

for unplanned jobs, such as emergency repairs, in 2013/14. This is ahead of our regulatory target

We scored
8.38
10

for planned jobs, such as mains replacement. This is just behind our rigorous internal target, but still ahead of our regulatory target and a significant improvement on the previous year

**Number 1
for customer
satisfaction!**



We averaged
8.61
10

for customer satisfaction, which is ahead of target

A caring lot

Our new Customer Care Officer role was created at the end of last year, to help us build bridges before starting work in local communities.

These individuals were tasked with speaking to customers and stakeholders ahead of mains replacement schemes, and compiling mitigation plans in response to local needs.

Ryan Beadle, one of our Customer Care Officers said: "It's a really rewarding role. No one likes roadworks, of course, but if you can explain why we're doing them, in a timely way, and make sure any practical requests are catered for, you can generate a lot of goodwill."



The gas is greener



Nurturing Bio Gas for a future of sustainable fuel

Our business is all about transporting energy, but in the process of getting it to our customers, we have to use a considerable amount of our own.

As a green-minded business, we are constantly looking for ways to reduce the impact of our activities on the environment.

From investing in a more fuel efficient vehicle fleet to reducing travel through video conferencing, there are lots of day-to-day things we do to make a difference.

By far the most effective thing we can do is to reduce leakage of gas from our network. When gas escapes from our pipes into the atmosphere, it contributes to the build-up of harmful greenhouse gas.

Through our work to replace ageing pipes, and sophisticated ways of regulating the pressure of gas within our network, we managed to beat our regulatory leakage targets in 2013/14.

It's not always easy, however. Disappointingly, our use of virgin aggregate (for road reinstatement etc) actually increased in 2013/14, largely due to the lack of approved recycling centres in our region.

Looking longer term, we are big supporters of the use of biomethane – produced by the biological breakdown of organic matter. This clean, sustainable fuel is an exciting prospect, but the industry is still in its infancy.

We have been working with prospective producers of biomethane, such as farmers and industrial waste organisations, to help them appreciate the financial opportunities of getting involved in this fledgling industry, and the practical issues involved. We've also delivered pilot schemes to look at the technical hurdles that need to be overcome to get biomethane into our network.

To make sure our environmental efforts are heading in the right direction, we have begun working with our contractors and suppliers to improve environmental data collection, and to set appropriate benchmarks against which we can measure our future performance.



Biomethane: a hot topic

Biomethane is an exciting, sustainable fuel for the future, but many prospective producers are still unaware of the commercial opportunities and technical processes involved.

Last year we held the region's first dedicated biomethane conference, attended by more than 200 delegates, including farmers, local authorities, commercial and industrial waste companies and water companies.

Valuable relationships were forged and seeds were sown to advance the progress of this exciting fuel for the future.

37,000 tonnes

the amount of CO₂ our efforts to reduce leakage on our pipe network have saved in 2013/14

399 GWH
(Giga Watts per hour)

the amount of gas lost through leakage in 2013/14. This was considerably better than our regulatory target

28.58%

the amount of virgin aggregate used for our operations

64%

the amount of spoil that we recycle...36% goes to landfill so we know we need to improve

Supporting local communities



Our region, our responsibility

Our core business will always be to provide a safe and reliable gas distribution service to the 2.7 million homes and businesses who rely on us every day.

But we are also well placed to deliver 'knock on' social and economic benefits to the region, especially in communities where household incomes are low, homes are poorly heated and employment and training opportunities are scarce.

Over the past 12 months, we have worked with our partners to deliver some fantastic projects.

We played an important role in protecting the region from the dangers of Carbon Monoxide (CO) poisoning, by rolling out hi-tech handheld detection units to our engineers, leaving CO nowhere to hide. We also promoted an educational mobile phone app, called iCOP to 18-24 year olds in rented accommodation, and delivered CO

safety briefing in customers' homes, following emergency call-outs.

The North of England has one of the highest levels of fuel poverty in the country, with 24% of households estimated to spend more than 10% of their income on heating.

In 2013/14, we and our partners helped 1,164 households to access more affordable energy solutions, by providing them with free gas connections and energy saving advice. We also forged an important new partnership with The Children's Society, to identify families in fuel poverty, and get them the help they need.

Meanwhile, we took a more focused approach to our education and training outreach work, teaming up with The Ahead Partnership, a not-for-profit organisation which supports disadvantaged young people, to provide opportunities in socially and economically deprived communities.

Some of the issues we are helping to tackle are enormously complex, and there are obvious limits to what we can achieve. However, by working with like-minded organisations, and trying not to spread our efforts too thinly, we can continue to improve quality of life for some of our more vulnerable customers.

We've also gone further than ever before to engage our stakeholders, from local authorities to community groups and charities. We run an active engagement programme, to give interested parties the opportunity to help shape the future direction of our business.

We've also been awarded over £1m by Ofgem for our work with stakeholders and we'll be investing this money back into the business to continue to improve our social obligations work. You can find out more by reading our 2014 Stakeholder Submission which is available on our website.

1,612

CO safety briefings delivered
in customers' homes



1,000

colleagues equipped with
handheld CO detectors



1,164

free gas connections
for customers in fuel poverty

22

interactive CO workshops
held in local schools

We ranked
2nd

among gas distributors for
the quality of our stakeholder
engagement programme

iCOP, our interactive and educational
CO app, was updated, and promoted to

2,000

students at freshers' fairs
across the region

Gascoseekers: life-saving technology in our hands

We're in the process of equipping all our emergency engineers with Gascoseekers – handheld devices which not only detect levels of gas (methane) in the air, but also CO.

Instead of relying on visual clues, our emergency engineers, who are first on the scene when a customer reports a smell of gas, are able to determine categorically whether or not CO is present in a customer's home.

In trials, the units have been shown to be highly effective at seeking out CO, providing extra reassurance for our customers.

Helped vulnerable customers unlock

£500,000

in unclaimed benefits, through a free benefits health check







97.2%

of connections jobs were completed on the date originally agreed with the customer in 2013/14



We averaged

8.61

10

for customer satisfaction for connections jobs, which is ahead of target



99.5%

of one off connections quotes were issued to customers within 6 working days



Making the right connection

Gas where you need it, when you need it

Around 11,000 customers come to us each year for a private gas connection. Common scenarios include a home extension which requires a gas supply, a business expansion or a newly built property. In other words – periods of upheaval, when the last thing customers want to worry about is a gas pipe being fitted on time!

The process of applying for a new connection, and then having the work delivered, is fairly involved, with no two jobs quite the same.

To make life as easy as possible for our customers, we've transformed our connections service, bringing it in-house, simplifying the application process and introducing stringent new standards of customer service.

We even developed the industry's first connections app, in response to requests from customers who couldn't find the time during their working week to go through a phone based application process.

The result has been a radical improvement in our customer satisfaction scores in this area, as measured by Ofgem.

Under RIIO (our contract with Ofgem) our connections performance is also measured against a number of very specific criteria, ranging from the percentage of customer quotes provided within a set deadline to the percentage of jobs completed on the date agreed with the customer.

In 2013/14, we far exceeded the minimum regulatory standards, and met many of our own challenging internal targets.

Innovation

You've got to think forward
to move forward



If you thought there was little scope for innovation in the field of gas distribution, think again!

From new excavation methods that reduce the number and size of holes we need to dig to more energy efficient ways of getting gas to customers' homes, our industry continues to embrace new technology and processes.

Our regulator, Ofgem, places a strong emphasis on innovation, with a stimulus package in place – via three separate funding pots – the Network Innovation Allowance (NIA), the Network Innovation Competition (NIC) and the Innovation Roll out Mechanism (IRM), to allow companies to develop groundbreaking projects which will result in better customer service, cost savings and environmental benefits.

In fact NGN was awarded best innovation strategy and highest NIA allowance under RIIO.

We took full advantage of these funding opportunities to invest £1.37 million across 27 different projects in 2013/14.

These include:

Remote water removal system: water finding its way into gas pipes is one of the biggest problems faced by gas distributors. This project is developing bespoke technology to locate leaks and extract the water, without the need to turn off customers' gas supplies.

Unmanned inspection technology: we currently use fortnightly helicopter surveys to monitor the condition of our high pressure gas network. These are costly and time consuming, as well as having a negative environmental impact. We have begun working with a specialist company to see if unmanned surveillance technologies, used successfully in other industries, can be applied to the gas industry.

Core n Vac: reinstatement (i.e. filling in the holes we dig) is by far the most disruptive and costly element of our repair activities. We recently completed a trial of Core n Vac technology, which takes a small, circular 'core' from a pavement or road, reducing the need to dig large holes. The trial demonstrated that, when combined with smart

acoustic leak detection technology, Core n Vac can reduce disruption, duration of jobs and cost. We are now preparing a detailed business case to be shared with the industry and local authorities.

Preheating trial: when gas moves from the high pressure distribution network to the low pressure network which supplies homes, it needs heating to prevent pipes from freezing. Traditionally, the industry has used water bath heaters or boiler houses for this purpose, which are expensive to run, and energy intensive. We are now trialling alternative preheating technologies, in the hope that a more cost effective and environmentally friendly solution can be found. We'll be sharing the results in real time on our website.

Biomethane standards: biomethane is still a fledgling industry, and producers and distributors need clear, consistent guidance on biomethane injection and pipelines. We are working with IGEM (Institute of Gas Engineers and Managers), Wales and West Utilities, Scotia Gas and National Grid to produce the standards and guidance documents required by the industry.



Investing in our people

We never lose sight of the most important part of our business – people

We are a major regional employer, and over the past 12 months, have continued to create new jobs, in order to improve our service to the public.

We've hired more than 300 new colleagues, expanding our team of emergency engineers, Customer Care Officers, office staff and more.

Our contractor workforce, which includes more than 30 local engineering businesses, has also grown, creating and safeguarding jobs, and helping these firms to diversify as well as prompting the creation of a new team – Construction Services – a division set up to support and manage our contractor firms.

We help all colleagues to realise their potential, through an active programme of training and personal development. Our 'inspire Academy' – a dedicated training and development department, sets the pace.

Opportunities for colleagues include leadership training, e-learning modules and the chance to gain academic qualifications in higher or further education.

We've developed an innovative peer-to-peer mentoring programme, where colleagues with specialist skills (often acquired in other industries) train others. From mastering an Excel spreadsheet to conflict resolution, this approach has been very successful.

We make learning fun, through learning lunches (a quick bite and a presentation on a hot industry topic) and an annual Presenter of the Year competition, in which colleagues conquer their public speaking hang-ups through coaching, mutual support and a fun competition element.

We're also developing more effective ways of keeping operational colleagues' skills up to scratch – using regular, on the job monitoring and assessment, rather than periodic refresher courses, which is the industry's default approach.

For us new blood is vitally important and we're committed to investing in our year in industry, apprentice and graduate programmes so that there is always a new generation waiting in the wings as experienced colleagues retire.

Nurturing talent

'inspire' is our way of thinking and acting. The approach gives every colleague the opportunity to get involved and make a difference. Our inspire Academy has grown considerably in the last 12 months, with new colleagues joining to deliver an exciting range of training and learning interventions.

Bronte Best Apprentice Training Co-ordinator

"I joined the team at the end of April, having previously worked for The Prince's Trust in a role that saw me help young people find training and employment opportunities.

"My job has allowed me to learn a huge amount in a short space of time and work with colleagues from across the business.

"As an apprentice, I'm working towards a Management and Leadership qualification – the equivalent of an NVQ Level 3 – with a full time position with NGN once I qualify."

Phil Crow Regional Coach

"Being a regional coach is a fantastic development opportunity. I get to develop my own skills while helping colleagues to improve theirs."



Revenue and customer bills



Giving something back whenever we can

The impact of gas distribution costs on customers' bills is not widely understood or debated – but on average, distribution costs account for around 17% of the total gas bill.

Our customers don't pay us directly, but through their suppliers, who we charge for distributing gas through our pipe network.

By running our network in an efficient way, we can save money, as well as pass some of this back to customers, by lowering the distribution element of their bills.

Historically, NGN has been the most cost-effective gas distribution network in the UK, and we continued to make every penny count in 2013/14. We generated significant cost savings against our expenditure allowance for the year.

£13 million of these savings will be passed back to customers through the energy suppliers, with the potential impact seen from 2015/16.

Our efficiencies are allowing us to reinvest in our business to continue to modernise our network and deliver the high standards of service our customers deserve. By meeting, and often exceeding many of our key regulatory targets, we generated additional financial rewards in 2013/14.

These included:

**£1.2
million**

to help fund innovation projects
to benefit customers and the
wider gas industry

**£2.73
million**

for reducing the amount
of gas lost to the atmosphere
through leakage

**£1.1
million**

for our work to actively involve
stakeholders in our business
decisions, especially our programmes
to improve quality of life
for customers in the region

**£1.82
million**

for setting the industry standard
in customer service



Results Summary 2014

Financial performance for the twelve months of operations ended 31st March 2014.

The financial information set out below does not constitute the company's regulatory accounts for the year ended 31st March 2014, but is derived from those accounts. Regulatory accounts for 2013/14 have been delivered to Ofgem. The auditors have reported those accounts in accordance with the Gas Transporters License; their report was unqualified.

A technical document aimed at industry professionals and developed in line with Ofgem's stringent guidance, provides a detailed analysis of our performance in 2013/14 against all of our targets. Visit <http://corporate.northerngasnetworks.co.uk/> to download and read the full report.

Highlights

Total Revenue	£400.5m
Operating Profit (EBITDA)	£169.8m
Profit After Tax	£66.5m
Operating Cash Flow	£147.3m
Capital expenditure and financial investment	£44.5m
Total Fixed Assets	£1,506.5m

Financial ratios

EBITDA/Total income	42.4%
EBITDA Interest coverage ratio	4.2

Operational measures

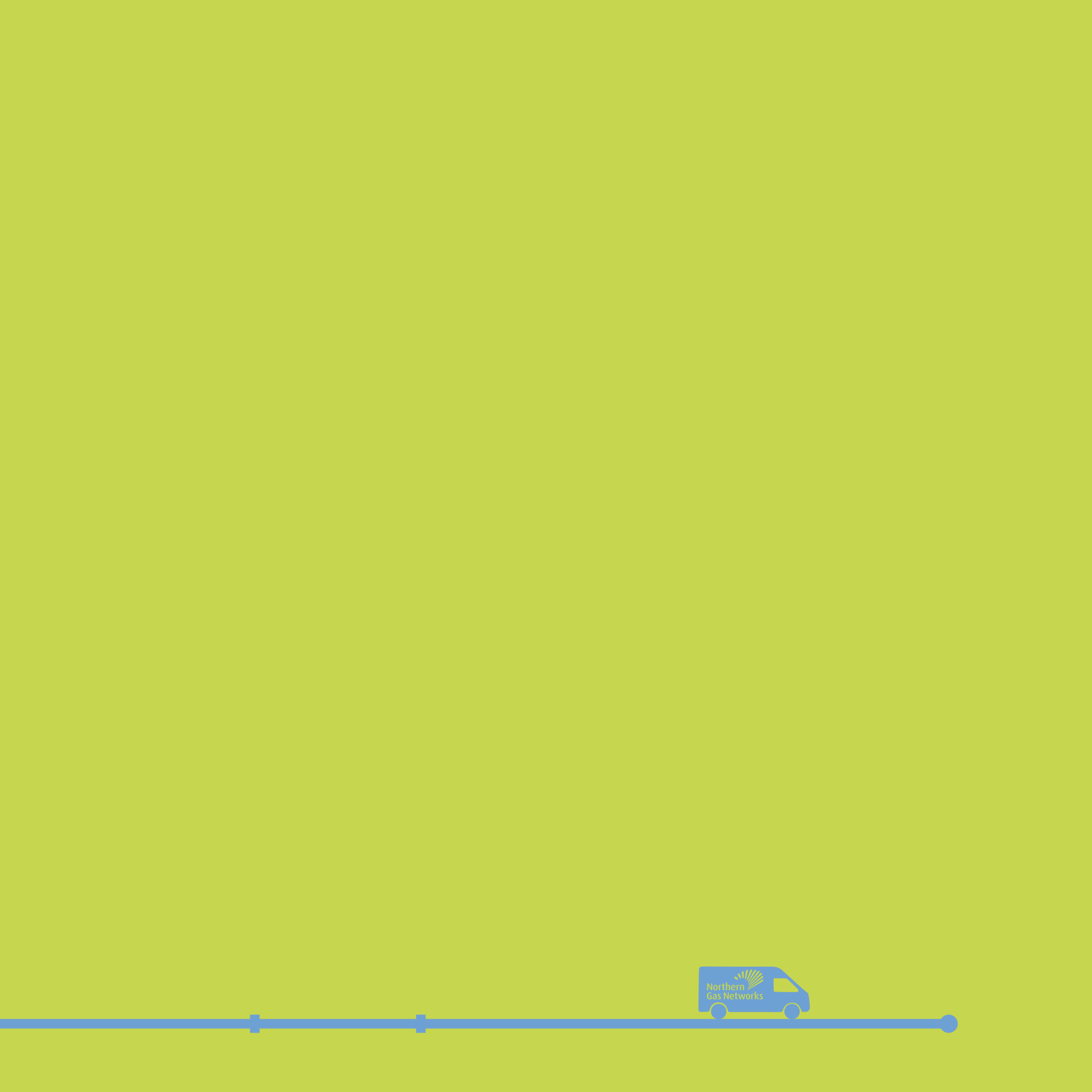
Number of customers to whom Northern Gas Networks transports gas	2.7m
Sales volume (tWh)	74.5
Length of pipe (000s km)	37,000km
Customer density (customers/km of pipe)	70.2

Employee measures

Number of full-time equivalent employees	1,303
Number of lost time injuries	3
Number of injuries to members of the public	3

Operational/efficiency

Number of gas escapes attended within 1 hour	99.85%
Number of gas escapes attended within 2 hours	99.97%
Number of connections	6,310
Repex abandonment workload	494.2km



We're chuffed to bits

Thanks to all of the hard work
and dedication of our teams,
this looks set to be another
successful year.

www.northerngasnetworks.co.uk

 [@NGNgas](https://twitter.com/NGNgas)

Smell gas? The National Gas Emergency Service is available 24 hours a day.

FREEPHONE 0800 111 999*

*All calls are recorded and may be monitored.