



Ofgem
By email to fwp@ofgem.gov.uk

3rd February 2023

Forward Work Programme 2023-24

SGN welcomes the opportunity to respond to Ofgem's Forward Work Programme consultation¹. As you may be aware, SGN manages the network that distributes natural and green gas to homes and businesses across Scotland and the South of England. We deliver a safe, secure, and reliable gas supply to 5.9 million customers through 74,000km of pipeline.

We appreciate the visibility that the Forward Work Programme provides and our opportunity to feed into it, especially given the current challenging conditions for both industry and customers. In our response below we have grouped the key themes as set out in the Forward Work Plan, referencing the programme points to which they refer.

As an overarching view of this consultation, we broadly agree with the details set out, however, would highlight the importance of maintaining the safety of the network, and given the time remaining within the RIIO-GD2 price control, ensuring a realistic and achievable outlook.

We would like to follow up on the previous year's review where the intention was identified to carry out reviews into 'the iron mains replacement programme', the approach to the depreciation of gas network infrastructure through RIIO', and 'regional approach for potential first move hydrogen areas for heating' with an expectation that views would be shared in the Q3 RIIO-3 framework consultation. Whilst the last has clearly progressed through the hydrogen village trial and the town bids, understanding Ofgem's views on the first two will directly impact the next regulatory period and are becoming a critical path item for discussion and clarification. Should you require any further information with regards to our response then please do not hesitate to contact me at David.Handley@SGN.co.uk

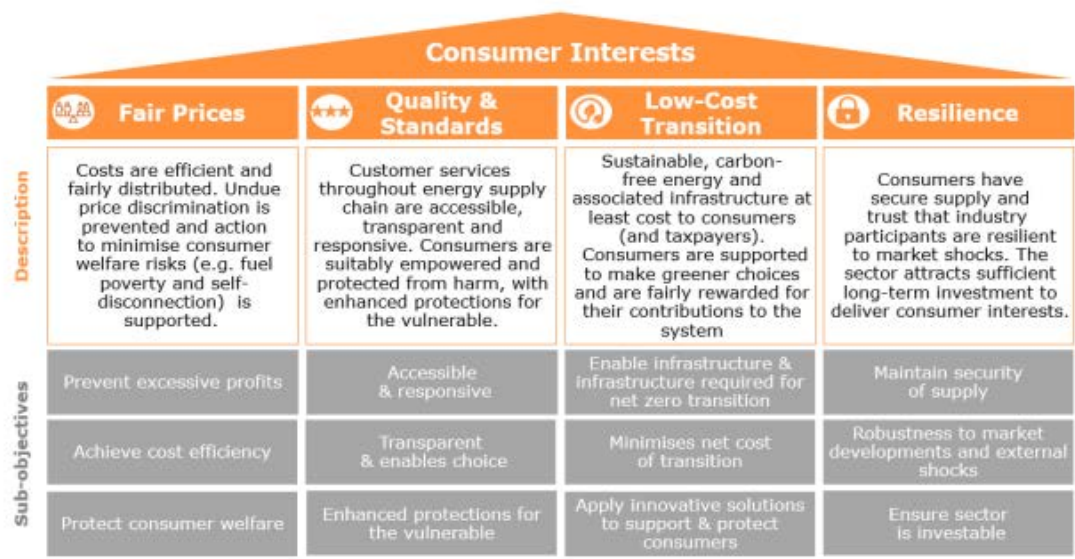
Yours faithfully,

A handwritten signature in black ink, appearing to read 'David Handley', is written over a light blue rectangular background.

David Handley
Director of Strategy and Regulation, SGN

¹ [Consultation document](#)

Consumer Interest Framework



SGN’s customers continue to remain an absolute priority within our work, particularly vulnerable customers. This framework appears to have a firm definitive line between the 4 pillars; however, it may be a challenge to trade off using this framework as in reality, many of the sub-objectives interlink with more than one pillar. For example, Enhanced protection for the vulnerable, although sits underneath the ‘Quality and Standards’ pillar, there is also an element of that objective that falls under ‘Fair Pricing’ as we aim to relieve the burden of cost to our most vulnerable, and an element that relates to the ‘Resilience’ pillar to ensure our most vulnerable customers have confidence in networks to maintain the security of their supply.

We agree with the intention of this framework however as highlighted above, there must be careful consideration to ensure customers are not put at risk in one area to provide benefit in another.

Strategic Priorities

Our short-term priorities	
Ensuring prices are fair	With sustained gas price volatility driving-up energy costs, Ofgem will work with government, acting fast to protect consumers, to help ensure that prices are fair across the energy value chain.
Creating resilience across the energy sector	Price volatility, geopolitical threats to European energy security and global competition have increased the need for resilience across the sector. We will strengthen security of supply standards and further implement changes to deliver a reformed retail market, so that it can better withstand market shocks.
Monitoring and enforcing quality and standards	Recently, performance standards have been found to be lacking across parts of the sector. We will continue to monitor and enforce key consumer standards and protections, while implementing new standards where our remit expands. We expect the sector to go further to support consumers, especially for the most vulnerable.

SGN generally supports these short-term priorities, however, there are a few elements to consider.

- **Prices:** It is important to define the term ‘fair’ and to whom this relates. This is described as ‘across the energy value chain’ but not clear whom this is referring to, customers, suppliers, or anyone else.
- **Resilience in sector:** The role of Ofgem in particular as we transition towards the FSO needs to be clarified and whether the role of Ofgem is purely focused on the financial resilience of companies involved in the energy supply chain or whether its focus is equally on the physical resilience of the supply chain and the use or not of strategic storage
- **Monitoring and enforcement:** We agree that the focus in these challenging times has to be on protecting the needs of the most vulnerable and we would include those in fuel poverty within this. Monitoring enforcement should be prioritised on this basis, and consideration needs to be given to avoid driving up operating costs unnecessarily without significant performance benefits.

Our Longer-term priorities	
Facilitating infrastructure investment	Decarbonisation of energy will require a new range of technologies across the system, with shifting demand for electricity, gas and other energy sources. Ofgem will act as an enabler for infrastructure investment at pace, to facilitate a rapid, cost-effective transition to net zero.
Developing and delivering market reforms	A renewables-dominated power system requires development and delivery of market reforms to help ensure it is optimised, including enabling greater flexibility.
Reforming governance arrangements	The transition requires a more strategically planned energy system and reforms to existing governance arrangements and institutions

We generally support these longer-term priorities; however, the timing of both short-term and longer-term priorities must be considered an important factor. While a full transformation/ investment in transformation may come in the future, decisions, trials, proof of concepts, etc need to happen in the shorter term in order to facilitate the longer-term priorities. These longer-term priorities also need to be worked on today in order to allow enough time for delivery by 2030. It is a glide path rather than sequential.

Delivery: Project and programmes

Shorter Term Priority

SGN agree with these projects and programmes in relation to short-term priority, there needs to be a clear focus on protecting customers, especially those who are vulnerable, as well as maintaining the safety of the network in the current financial climate.

- **Ensuring prices are fair**

Every year as a distribution network we aim to reduce our impact on customer bills. Keeping customer bill impacts low continues to be our aim through this price control period, although, it is now more challenging given the cost-of-living crisis.

We support our vulnerable customers in multiple ways and have done a lot of work so far in GD2 to build partnerships with charities and associations which can offer further support. We do agree that there is more that can be done to support vulnerable customers, especially in the current cost of living crisis and we support the updating of the consumer vulnerability strategy. An important element that should be debated in this strategy is what is the role of the networks in providing active support and assistance to vulnerable customers (either directly or indirectly through partners) and the extent to which this role should remain with local authorities and central or local government.

We feel it is also important to note that vulnerable customers should receive the same level of support regardless of their postcode and therefore it is important that each individual strand of the energy sector is aligned and collaborated in its actions in order to deliver consistently throughout the country.

- **Creating resilience across the energy sector**

Creating resilience across the energy sector is critical and having clarity on the role of Ofgem, the emerging FSO, and the Government about who takes responsibility for ensuring appropriate resilience standards are set for industry to respond to is critical. The recent events have also identified that there is a clear value for resilience which is not priced into the market that should be compensated for and that the decision as to when to start reducing resilience (by closing a sector down for example) needs to take after very careful consideration and in recognition of the insurance value that assets may hold.

Cyber resilience and investing in cyber resilience remain critical, this needs to allow adequate flexibility to maintain pace in an ever-evolving environment. One of the challenges that as a sector we face is to ensure that appropriate flexibility is in place whilst consumer safeguards and value for money also remain in place. These regulatory structures are important areas in which we should continue to learn and develop.

Financial resilience is an important bedrock from which all investment in the sector is made. It has clearly been tested on the supply side over recent winters. It is important to ensure that appropriate safeguards are put in place, and that appropriate standards are set out according to the level of investment needed (and hence the cost to the consumer of funding that investment) and the level of customer exposure should a company no longer be able to continue operating. Both need to be considered tandem.

- **Setting, monitoring, and enforcing quality standards**

Quality standards and compliance can prove difficult to maintain when companies are under the strains and pressures of multiple external factors. This winter has been particularly challenging as a result of issues that can be considered broader economic factors and supply chain issues. Whilst any

drop in quality is serious the extent to which there are extenuating circumstances and the extent of effort to which the company tried to address those circumstances should be considered.

It is also important to ensure that standards are reviewed regularly to ensure they are always serving the right purpose and not just incurring additional costs with limited consumer benefit.

- **Heat network regulation**

Building an effective and transparent regulatory structure for heat networks is beneficial for all parties, help to improve the investability in the sector and builds customer confidence, and supports whole-system approaches to decarbonisation. We support open and transparent regulation as an effective root to decarbonisation and recognising the customer vulnerabilities that could be exposed without effective regulation.

Longer Term Priority

While all these longer-term projects have importance, the ongoing delivery of a safe and reliable gas network should still remain at the forefront. The resilience of the gas network is not just a short-term priority; this will be a continued priority that provides security to our customers as we continue to develop into a net-zero future.

- **Facilitating Infrastructure Investment**

Enable time-critical investment in infrastructure: A whole system approach will be key to enabling time-critical investment, and we would agree that a holistic network design supports that by providing great benefit

Future network regulatory framework: There must be an acknowledgement that there is little time remaining in the price control period to start implementing drastic change, therefore careful consideration is needed to determine what is realistically deliverable in the timeframe between this price control and the next.

This is an important point in time for the energy sector as we continue our transition towards a decarbonised network. It is of course important that the regulatory structures are kept under review to maintain their ability to deliver the best customer outcomes against this backdrop of change, uncertainty and the increasing need for resilience and integration.

The current regulatory building blocks provide a suitable basis from which to evolve and improve and therefore we do not see it feasible nor desirable to initiate a fundamental change in the regulatory approach for the next price control due to the risk of unintended consequences and loss of confidence in regulatory structures. We do believe there are significant improvements that can be made in the existing regulatory process to reduce the regulatory burden and increase transparency without redrawing the entire framework. There may be a case for regulatory change in future regulatory periods, however, this should be based on a clear problem statement, and clear objectives, and should also include significant industry engagement over a longer period to allow appropriate discussion and agreement across the sector.

Nuclear Regulated Asset Base (RAB) model: We agree with the approach proposed and consider it to have wider applicability to other investments – such as CCUS and hydrogen.

Carbon Capture Utilisation and Storage (CCUS) RAB model: It is our view that the design of an appropriate commercial and legal transportation and storage regime for CO₂ is critical to enable investment to take place.

Hydrogen: Whilst we welcome the constructive and ongoing engagement with Ofgem regarding the role of hydrogen, it is our view that the focus on the hard-to-decarbonise end-use sectors is misplaced and that it is sensible to keep a broader perspective. Domestic consumers and industrial parties are equally hard to decarbonise, and whilst there are technical barriers in the industrial sector to decarbonising through electrification there are equally challenging social barriers in the domestic sector. Supporting the development of a deep and liquid market in hydrogen across all consumers and providing consumer choice is in our view a priority, rather than a shallow market with a narrow focus whose sustainability is dependent on the presence of a key off-taker. Building the body of evidence to support the extended role out of hydrogen across all customers must remain a critical priority to enable an effective market to become established.

It is our view that the timely development of a regulatory and commercial model for blending hydrogen into the existing natural gas infrastructure is a key stage in the market development and will be key to allowing a wider consumer and producer base in the early stages of developing hydrogen.

- **Developing and delivering market reforms**

Enabling markets for flexibility: We agree with this in principle, however, would stress the importance of local system operators having independence from the DSO. Having that distinct separation allows for clear responsibility should the flexibility anticipated, and the flexibility delivered differ and for an appropriate level of risk to be allowed for that eventuality.

Wholesale market reforms and network charging arrangements: No observations.

- **Reforming governance arrangements**

Future System Operator (FSO) and local governance: The Role of the FSO is going to be key for all networks and the full supply chain. As such it is important that gas networks have a fair representation within the FSO so that they have a full understanding of the role of the gas networks today, the benefits that they can bring with hydrogen and the implications of underinvestment and letting the asset deteriorate.

Within it is important that there is clarity between Ofgem, the FSO, and BEIS over who is responsible for what aspects of the energy system, and that there is appropriate governmental direction on the decisions made and regulatory direction on the costs awarded. This is necessary to keep the accountability of the FSO firmly within the public realm.

Energy code reform: Energy code reform is an ongoing area of change, and it will be beneficial to see progress and direction so that effective planning and investment for the changes needed to bring about the net-zero transition can be implemented. These may well require different structures and

new investments so having visibility on the direction of change and the appropriateness of investment is critical.

Energy sector digitalisation: The above factors are supported by Energy Sector Digitalisation. However, whilst we recognise and agree with the objectives and the stated aim of energy sector digitalisation, it is important to note that the sector as a whole has a significant journey to make to deliver digitalisation. This is a new challenge that is outside of standard operational practice and therefore it is also our view that the customer benefits will be maximised if that journey is undertaken in a coordinated manner across different networks rather than networks acting in isolation. We will continue working with and within working groups to support this approach.

Continuing Core regulatory activities

Delivering core regulatory activities will be the essential backbone of our work and the energy markets. It is important that its value is recognised and that core changes such as market operations and code governance that may not deliver headlines are given appropriate attention and resourcing.

Delivering Environmental and social schemes for government

No observations

Estimated expenditure

No observations

Reducing Burdens

Maintaining an appropriate level of regulatory burden to ensure the right information is available at a reasonable administrative cost is a key challenge. The reporting burden has increased significantly between the current and the previous price control, and we think there it is right to question whether there has been a corresponding increase in the customer value generated. We would encourage Ofgem to continually check whether each public report is adding value to consumers or whether it risks obscuring information that customers are interested in.