

14 May 2023

[FutureNetworkRegulation@ofgem.gov.uk](mailto:FutureNetworkRegulation@ofgem.gov.uk)

Dear Ofgem

**Consultation on Frameworks for Future Systems and Network Regulation**

This response is on behalf of SGN's Customer and Stakeholder Engagement Group (CSEG). In an earlier guise we provided a challenge role on SGN's GD2 Business Plan and we are now focussed on holding them to account for delivery of that Plan and on the preparatory work for the next price control. Our focus throughout is on ensuring that SGN's actions reflect the interests and priorities of customers and wider stakeholders. The CSEG membership is on our web page<sup>1</sup>.

We would like to make a number of high-level comments in response to Ofgem's consultation as well as providing evidence on the value of engagement in GD2 which Ofgem has specifically asked about.

*Timing*

One of the issues raised in the consultation is around whether or not there should be a two year rollover of GD2, to align the gas and electricity distribution price controls. We would ask Ofgem to provide clarity on this timing question as a matter of urgency. SGN has already started preparatory work for GD3 including, for example, commissioning consumer research, where we have been scrutinising their proposed approach. We are concerned that much of this work will be wasted if Ofgem does opt for a rollover.

More generally one of our lessons from GD2 was around the compressed timescales for the process. Companies were expected to submit Draft Business Plans only a month after the Sector Specific Methodology Decision was published. This time round we seem to be even further behind and hence there is a sense in which it now feels as if there is no alternative but to rollover.

If this is the case then we would encourage Ofgem to make the rollover process as light touch as possible so that this interim period can be used for consideration of some of the very difficult and more strategic questions that the sector faces around the future of the gas network (which we discuss further below) and what they mean for future price controls.

*Focus on strategic challenges*

Because of the earlier (2045) Net Zero legislative target in Scotland we are finding that some of these strategic questions already feel quite real. In particular the Scottish Government's Draft Energy Strategy includes an ambition for over 1 million homes to have decarbonised heating by 2030. If met, this would represent around half of all homes in SGN's Scotland licence area, prompting real concerns around asset stranding given the need to keep the network safe while there are still customers connected. With half the number of customers the network charges for remaining customers (who are likely to be lower income) would effectively be doubled. De-commissioning can

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<sup>1</sup> <https://sgn.co.uk/about-us/our-stakeholders/customer-and-stakeholder-engagement-group>

only be done once the last customer has left that part of the network but needs to be thought about now.

Equally there are significant questions about how the hydrogen networks, needed for industrial and other purposes regardless of the decision on domestic heat, will be regulated.

We are pleased that Ofgem's consultation does start to acknowledge these difficult issues but it is not clear to us that the discussion on the different archetypes helps with them. We would like to see these questions taken forward as a specific programme of work (in parallel with work on the rollover, if Ofgem goes down that path), to ensure they are given the necessary focus.

To support our own thinking around these strategic issues we recently held a panel discussion including members of the Scottish Just Transition Commission, Scottish government and fuel poverty charities, which Ofgem also joined as an observer. This highlighted the need for stronger leadership looking across the energy landscape at the implications for customers of both current market issues and the transition to net zero. We would hope that through a focus on these more strategic issues, Ofgem can help to fill this vacuum.

#### *The Scottish legal context*

Given SGN's position covering both Scotland and south of England we are acutely aware that Scotland and England have different targets for achieving net zero, with Scotland legally committed to a faster pace (2045 rather than 2050) and an interim target by 2030 of a 75% reduction in GHG emissions compared to 1990 (also a statutory, legally binding target). While the Ofgem consultation makes a brief reference to the Scottish targets it is not clear how far they are really influencing Ofgem's thinking. The CSEG would like to see more explicit consideration by Ofgem of these different legal frameworks and their implications for future network regulation.

#### *Wider price control outputs*

Finally, we were very struck by the absence of any reference to vulnerability, customer service or wider environmental impacts in Ofgem's consultation. From the engagement that was carried out on GD2 we know these are important issues for customers and stakeholders. We trust that Ofgem is not proposing to wind back from its historic focus (through RIIO and its predecessors) on the broader outputs that networks are expected to deliver and the incentives that Ofgem has provided in that space. Reflecting on the extreme hardship that many customers today are facing, we would stress the imperative to retain support for vulnerable households and to ensure a just transition.

#### *The importance of engagement*

Linked to this we see real value in the Business Plan that SGN prepares being underpinned by quality engagement with customers and stakeholders. We believe that as a CEG we helped significantly improve the quality of the GD2 Business Plan and stand ready to play that role again. We believe that our influence is strengthened within the company if we are seen as having a formal role as a part of the process but are pleased that SGN has taken the positive step of continuing with the CSEG on a voluntary basis and take this as evidence that they value our input. We provide further reflections on this point in our response to question 1 attached.

Yours faithfully

Maxine Frerk

Chair SGN Customer and Stakeholder Engagement Group

**Q.1. What should the role of the ‘consumer voice’ be and through what institutions and processes should it be channelled?**

One of the successes of RIIO which we would not want to see lost is the emphasis on companies engaging with their customers and stakeholders both in the development of their plans and in their operational delivery. It is customers who are paying the bills and it is therefore right that customers should have a say in what goes into those bills. This focus on engagement has also helped create what we see in SGN as a genuinely customer focussed organisation – recognising that it is real people who are at the ends of their network and looking at how they can best be supported.

In our report to Ofgem on SGN’s GD2 Business Plan<sup>2</sup> we set out what we felt were the strengths of their engagement and in particular we had consistently advocated for more use to be made of deliberative techniques to really understand customer thinking and to address some of the more complex challenges in the sector. We are less convinced of the value of the conventional “willingness to pay / acceptability testing” which companies have done because they felt they needed to provide evidence to Ofgem of consumer support for their plans, although ultimately Ofgem seemed to place little weight on that evidence in its Final Decision.

We would also stress that the consumer voice is not simply about domestic customers but also business customers and “future consumers”, which SGN and others have tried to find novel ways of addressing.

Our role as a CEG has been to provide scrutiny of the approach that SGN has taken to engagement to ensure it is robust (and also to listen in directly ourselves to some of the research to help us properly understand what consumers priorities and concerns are). As a CEG we were then able to reflect that consumer voice within the detailed discussions around elements of the Business Plan and provide challenge to SGN and assurance to Ofgem that the Business Plan put forward reflected those customer priorities.

For example, we heard first hand from customers that in terms of tackling its carbon footprint they wanted SGN to prioritise action on leakage and we therefore pushed SGN to be more ambitious in that area (albeit Ofgem ultimately did not support that focus). In relation to vulnerable customer support, expert stakeholders sent a clear message that SGN should reshape their proposals to provide deeper support to a smaller number of people – which we were pleased to see SGN act on.

In our view the consumer voice is most evidently of value on these sorts of specific issues where customers can draw on their experience (and where Ofgem is less well placed to judge what matters to customers). In contrast we were unconvinced of the value of the research the GDNs were asked to undertake to support their position on the cost of capital. While customers can provide helpful insights on complex issues like this given enough time and explanation, it is not clear that this should be a priority when it is an area that ultimately Ofgem has significant expertise in.

We set out in Appendix 1 to our report (referenced above), the range of ways in which SGN’s Business Plan had been improved by the CEG’s involvement as evidence of the value of having the CEG reflecting the consumer voice. As well as reinforcing consumer and stakeholder messages, we believe there is value in simply having a fresh pair of eyes reviewing the Business Plan through a

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<sup>2</sup> <https://sgn.co.uk/sites/default/files/media-entities/documents/2023-02/SGN-CEG-Final-Report-December-2019.pdf>

customer lens. We believe Ofgem will have benefitted from having a much clearer and better Business Plan than it would likely have received had the CEG not been playing that scrutiny role.

As such we would like to see Ofgem maintaining the formal role of CEGs in the price control process. In particular we do believe that our views were given more weight by SGN as a result of the fact that we would be providing a report to Ofgem. For the same reason it is also important that Ofgem clearly takes account of CEG input in reaching its decisions. As Ofgem will be aware there were significant concerns at Draft Determinations on GD2 that this was not the case.

There is a real opportunity going forward for Ofgem to draw on the expertise of the CSEG members who are all committed to ensuring the consumer and stakeholder voice is fully taken into account and we would be keen to engage further with Ofgem as the process moves forward.