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Territorial extent: Great Britain

Response author: SGN

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Response to Questions for Input:

1. We would welcome your views on our refreshed strategic framework and proposed programme of work for 2024/25

Proposed strategic framework for Ofgem's regulatory work

We welcome the opportunity to provide a detailed review of Ofgem's refreshed strategic framework and proposed programme of work for 2024/25. As stakeholders deeply invested in the energy sector's evolution, we appreciate the chance to contribute insights aimed at fostering a resilient, sustainable, and customer-focused energy landscape. Navigating the complexities of the energy transition towards net zero presents multifaceted challenges and opportunities. Ofgem's commitment to revisiting its strategic framework and programme of work reflects their dedication to addressing these challenges proactively. Our engagement in this process underscores our shared commitment to shaping a future energy system that is both environmentally sustainable and economically viable.

Central to our discussions is the recognition of the pivotal role that gas continues to play in the transition to net zero. While the evolution towards renewable energy sources is undeniable, uncertainties persist regarding the future of gas. It is imperative not to overlook the potential contributions of gas, whether through hydrogen or other renewable resources, in decarbonising heat and ensuring the resilience of our energy infrastructure. Ofgem's acknowledgment of the ongoing importance of gas in this context is commendable.

Moreover, we support Ofgem's continued emphasis on supporting customers, particularly the most vulnerable, during this period of transition. Early visibility into the multi-year strategy would enable stakeholders to align their plans, such as the upcoming RIIO-3, with Ofgem's overarching objectives. The outlined areas of focus for shaping a retail market that works for customers—driving up standards, ensuring fair prices, promoting competition and investability, and supporting innovative and evolving markets—resonate with our commitment to customer-centricity. Clarity on how these priorities may influence existing standards and investments would greatly facilitate our own strategic planning processes.

Similarly, with 'Enabling infrastructure for net zero', early sight and communication of these evolving plans will be key to building a successful transition. There is a real need for a whole system approach with open communication throughout to ensure that enabling the future of the gas grid is supported by other areas Ofgem have named within the consultation: strategic planning, resilient supplies, and the expansion of the electricity networks.

Delivery of policy projects and core regulatory activities

Drive up standards

Our dedication to supporting vulnerable customers remains firm. Collaborative partnerships with organizations such as Scope, Age UK, and local councils, many of which we lead on as a network, underscore our commitment to ensuring that no customer is left behind. We eagerly anticipate the outcomes of the Customer Vulnerability Strategy 2019-25 review, as they will inform our ongoing efforts to enhance support mechanisms for vulnerable customers across the UK, irrespective of postcode area.

Ensure Fair prices

Fair pricing remains a top priority for SGN, especially amidst the current economic climate, balancing the need to maintain a safe and reliable network. We appreciate Ofgem's initiative to shield customers from the impacts of rising energy bills. However, we caution against potential unintended consequences, such as incentivising energy reduction among low-income households. Targeted interventions to alleviate fuel poverty are essential to ensuring that all customers, now and in the future, can affordably access essential energy services.

Customer bill impact also remains a top priority for SGN, as such we continually look to reduce our burden to customers. As stated in our response to the standing charges call for input, we support Ofgem's initiative to assess all available options to shield customers for the effects of rising energy bills. However, there is an important consideration as to whether removal of standing charges elicits the right outcomes, as this would likely encourage low-income households to 'turn off' their energy supply to achieve low bills.

In our response for this call for input we stated our view that 'Targeted intervention to support those living in fuel poverty is ultimately a better solution to achieving the desired outcome of GB citizens living in warm homes in a manner that they can afford'.

Promote competition and investability

Maintaining safety is essential to maintaining investor confidence and fostering continuous investment in our networks. We endorse measures aimed at improving data quality and assessing customer service standards effectively. Further clarity on new bespoke measures to assess customer service standards and their potential implications for gas networks would help to facilitate informed decision-making and strategic planning.

Support innovative and evolving markets

Innovation is pivotal to our journey toward net zero. Pioneering projects, such as Hydrogen initiatives in Fife and LTS futures projects in Edinburgh, underscore our commitment to exploring greener solutions. Balancing innovation with customer needs, particularly during times of energy crisis, remains a delicate endeavour. We echo Ofgem's commitment to promoting innovation and consumer engagement while safeguarding customer interests.

Transparent communication and collaboration are essential in building a regulatory structure that fosters innovation while ensuring customer protection. As we explore the potential of heat networks, we advocate for robust communication channels to facilitate stakeholder engagement and ensure that regulatory frameworks are conducive to innovation.

Enabling infrastructure for net zero

Ensuring the safety, security, and reliability of gas networks is paramount as we plan for the transition to alternative heat options including the potential decline of the existing gas grid.

Green gas options, such as biomethane, offer promising avenues for decarbonizing the gas grid and warrant further exploration. Understanding the role of the Future System Operator (FSO) and its implications for the future of gas infrastructure is essential for informed decision-making and strategic planning.

Establish strategic planning

SGN are keen to understand the role of the FSO as it develops, and how this will structure and influence decisions around the future of gas.

We have noted the potential performance objectives set out in Ofgem's recent consultation on the Policy direction for the FSO regulatory framework. Although these objectives are clear, they are broad, and we would recommend implementing a form of specific assessment in order to measure achievement of each individual objective.

There is a vast amount of work, including regional studies and early development work, that will need to continue in order to understand how the role of the Regional Energy Strategic planner (RESP) fits in to the developing whole energy system decarbonisation plans.

As Ofgem suggests within the consultation there will be a growth in roles for the facilitation of a RESP, we have also acknowledged the need for additional resources within Gas Distribution networks to facilitate and support this growth at a regional level.

Facilitate low carbon generation

No observations

Expand electricity networks

No observations

Ensure high service standards at reasonable cost

Strategic Innovation Funding (SIF) has provided an important mechanism to support collaboration with partners and progress innovation projects on various areas of the business to provide benefit to consumers. We continue to work on 4 innovative projects in RIIO-2 with the use of this funding mechanism which we have found to be a valuable tool in progressing towards our net zero target.

Ensure resilient supplies

The financial resilience of gas distribution networks is the centre of all investment within the energy sector and is critical for ensuring the continued delivery of safe, reliable, and efficient energy services to customers across the UK. As the energy landscape evolves, with increasing aspiration to transition towards a low-carbon future, gas distribution networks face numerous challenges that may impact their financial stability.

The ongoing transition to net zero presents significant investment requirements for gas distribution networks. These investments are necessary to upgrade infrastructure, deploy new technologies, and support the integration of renewable gases such as hydrogen into the existing gas grid. However, these investments come with substantial upfront costs and uncertainties regarding future revenue streams, particularly as traditional revenue models evolve in response to changing market dynamics and regulatory frameworks. It is therefore crucial that we have continual review of the safeguarding mechanisms and standards used to maintain investor confidence.

By prioritising financial resilience and providing a supportive regulatory environment, Ofgem can help ensure the long-term viability and sustainability of the gas distribution network sector, ultimately benefiting customers.

Resilience and security are key considerations in ensuring the reliability and safety of gas distribution networks. Cyber security is a high priority for SGN as it continues to be one of our biggest corporate risks. We are continually looking to improve in this area to make sure we have robust capability. RIIO-2 has allowed us the opportunity to work closely with Ofgem to define and improve our strategy for the current price control period, we are keen to continue with this approach as we progress into RIIO-3. It is vital that we maintain a level of flexibility in a rapidly evolving environment.

Drawing upon lessons learned from ED2, we welcome proactive measures to enhance network resilience and mitigate emerging risks, such as cybersecurity threats and extreme weather events. This includes investing in robust infrastructure and implementing best practices for risk management and contingency planning. By prioritising resilience and security, we can strengthen the integrity of the gas distribution network and safeguard the interests of customers and communities.

Enable the future of the gas grid

SGN are currently in the process of responding to the Ofgem's Sector Specific Methodology Consultation (SSMC) which set out Ofgem's potential approaches and initial thoughts on RIIO-3, many of the questions set out within the consultation allow for good discussion on specific funding needs, as well as changes that may be required as we progress from a challenging and uncertain economic climate in RIIO-2 to RIIO-3.

We have also welcomed the opportunity for discussion via Ofgem's working groups, with good open discussion on specific topics with other networks and key stakeholders.

The timelines for the business plan submission have been clearly set out by Ofgem, and although we understand the constraints, we would encourage sight of the business plan guidance as early as possible to enable us to formulate the most constructive plan and to ensure that we have effective challenge from all key customer and stakeholder groups.

In terms of Hydrogen developments, we must maintain pace on the evidentiary work that we are progressing with as we are keen to see the opportunities for innovative hydrogen projects progress in RIIO-3. We reiterate the need for transparent and consistent communication across all stakeholders, including but not limited to DESNZ, HSE, networks, regulators.

Establishing an efficient, flexible energy system

Effective market incentives and enabling systems are essential to fostering an efficient, flexible energy system. We support initiatives aimed at delivering these objectives and stand ready to collaborate with Ofgem and other stakeholders in their implementation.

Deliver effective and efficient market incentives and signals

No observations

Ensure the enabling systems are in place

Generally, we support the proposed development and implementation of the Code governance reform. There is currently an open consultation with Ofgem; 'Energy Code Reform: implementation consultation', which SGN are in the process of responding to. We will be able to expand on our thoughts on this topic within our response.

Delivering environmental and social schemes for government

Energy efficiency and social schemes

We fully support Ofgem's schemes aimed at promoting energy efficiency and supporting vulnerable customers. SGN remains committed to reinforcing the proposed objectives set out within the Economy Company Obligation, the GB Insulation Scheme, and the Warm Home Discount schemes, to ensure the safety and well-being of our customers.

Renewable heat schemes

SGN do not have any particular comment on the green gas support scheme as it currently stands, although we would suggest that the whole funding structure would benefit from a review in order to further incentivise larger plants.

Renewable electricity schemes

No observations

Our feedback reflects our commitment to collaborative, customer-centric, and innovative approaches to addressing the challenges and opportunities outlined in Ofgem's proposed strategic framework and programme of work for 2024/25. We commend Ofgem for its proactive engagement and look forward to continued collaboration in shaping a sustainable, resilient, and customer-focused energy landscape.