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Response author: SGN

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DNO Low Carbon Technology - Energy Efficiency role in ED3

SGN owns and operates the gas distribution networks across Scotland and the south of England, safely delivering natural and low-carbon gases to six million homes and more than 188,000 businesses. Our infrastructure covers high-pressure transmission pipelines serving major industrial users, towns and cities, to lower-pressure networks supplying homes, hospitals, schools and local businesses.

The energy we transport powers businesses which contribute c.£500bn in gross value added (GVA) to the UK economy and supports over seven million jobs – making SGN a vital enabler of economic growth and resilience. Furthermore, we are the largest entry point for green gas into Britain's network, helping to decarbonise heating and transport whilst furthering the growth of sustainable energy markets and supporting net zero targets.

SGN welcomes the opportunity to respond to Ofgem's above consultation¹. Whilst the consultation primarily relates to the forthcoming electricity distribution price control (ED3), SGN as a Gas Transporter (GT) is responding as an interested party, and rather than providing specific responses to the posed questions, we instead offer the following key observations.

Problem Statement and Delivery Route

SGN agrees that *"to achieve the energy transition in an effective, low-cost manner, that doesn't leave certain groups of households behind there will need to be better co-ordination between all parties"* and that *"to achieve the increase in delivery that is needed to meet Clean Power 2030 and Net Zero 2050, we should also be considering how new approaches can complement existing activities to achieve best outcomes for consumers"*². It cannot be overstated that progress towards net zero pre-supposes a radical approach to the adoption and implementation of low carbon energy approaches.

However, we are of the view that by focussing solely on expanding the role of DNOs, the consultation defines the problem statement in too narrow terms³, while the best outcome in the interests of all consumers is one which balances the

¹ [DNO Low Carbon Technology - Energy Efficiency role in ED3 | Ofgem](#)

² 1.2, p4, consultation document

³ We recognise that the consultation relates specifically to ED3 and as such can only comment on electricity-specific proposals, however this does not preclude development of policy alongside complementary approaches already demonstrably available in the gas market.

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complementary strengths of all vectors. As such the best approach should always be on a whole-system, rather than electricity-only, basis.

Gas is already a demonstrably secure and reliable energy source, particularly in periods of high demand, severe weather, or grid outages. Historically, the UK gas network has demonstrated exceptional performance in such conditions, maintaining 99.9% reliability during events like the Beast from the East⁴, at a time when thousands of electricity customers faced widespread disruption. Our critical national infrastructure provides reliable, resilient energy to essential services and industries, supporting homes, public services, power stations and manufacturing.

The interlinkages of electricity and gas should not be underplayed. UK gas networks play a key role in supporting the security of the nation's electricity supply through generation, and more recently the market is increasingly acknowledging gas to be a more readily available energy source in scenarios where the equivalent electricity capacity is not available⁵.

Furthermore, it has been widely demonstrated that green gas solutions can positively contribute to net zero ambitions. SGN has actively expanded the number of biomethane injection sites and invested in technologies that increase injection capacity, helping grow the volume of renewable gas distributed through its networks. As such, the narrative that low carbon technologies can only be delivered through the DNOs is unhelpful and places a disproportionate burden on a single energy vector.

Clear definition of vires and roles

SGN has significant concerns with both the proposed “enhanced co-ordination” and “expanded role” approaches for the DNO.

Firstly, placing such influential activities with one energy vector risks introducing an inherent bias which may result in sub-optimal solutions.

Secondly, it is not clear how such an approach would also be in line with the National Energy System Operator's (NESO) emerging whole-energy-system planning framework. While industry is currently focussed on working collaboratively to develop the Strategic Spatial Energy Plans (SSEP), Centralised Strategic Network Plans (CSNP) and the Regional Energy System Plans (RESPs), it seems counter-intuitive to introduce a seemingly conflicting role which may divert or divide stakeholder resources and attention⁶. Furthermore, while concerns regarding electricity-bias within NESO have been articulated, it is clearly intended to operate with a more independent, fuel-agnostic, approach than could reasonably be expected of the DNOs.

Furthermore, the recently published Warm Homes Plan announced government's intention to establish the Warm Homes Agency (WHA). It appears likely that much of the WHA's remit could overlap with the proposed role for DNOs described in the consultation, potentially leading to stakeholder confusion, in particular for domestic customers.

Preservation of customer choice

The expansion of the DNO role appears to be predicated on the assumption that adoption of electricity-driven low carbon technologies can be geographically coordinated.

Whilst incentives can be made available, such as support for heat pump installation, ultimately the decision to adopt such solutions is customer-specific and can be driven by a multitude of considerations including socio-economic factors, wider expectations around their energy use, and the degree to which they wish to, and are able to, invest. All customers have unique attributes, with individual barriers and opportunities to engage in the energy transition.

⁴ <https://bit.ly/4sTN3ZF>

⁵ SGN refers to our recent response to Ofgem's Demand Connection Reform Call for Input

⁶ We note that the consultation acknowledges this potential “interaction” but does not appear to address how this would work in practical terms (2.14, p10, consultation document).

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Quantitative vs Qualitative Delivery

The GDNs engage on a direct basis with our customers, through our engineers' presence in the homes of the most vulnerable customers, supported by our Customer Teams. SGN engineers walk through the front door of around 300,000 customer homes each year. Our collective experience, in combination with our extensive collaboration and partnerships with third party organisations, enables us to target support to those who have the greatest need, and for whom the greatest positive impact can be made.

It is important to acknowledge that the potential implementation of a poorly designed blanket programme of technology adoption risks targeting delivery on a volumetric basis, likely at the overall detriment of the quality of the outcome. Whilst the consultation acknowledges the need to ensure that certain customer groups should not be left behind, we would highlight the risk that coordination, should it materialise as a prescriptive approach, could essentially result in individual customers being grouped into a coordinated solution irrespective of whether it is ultimately the best fit for their circumstances. In addition to representing a degradation in customer choice, which is a fundamental principle of the competitive energy market, this also risks the prioritisation of a quantitative, rather than qualitative, approach to low carbon adoption.

Ongoing Operation of the Gas Network

A coordinated uptake of low carbon technologies (even in the event where customer choice can be preserved) should not be assumed to correlate with significant disconnections from the gas network. The nature of the gas network, and in particular the mixed distribution of industrial and commercial (I&C) premises across varying pressure tiers, means that in reality it is unlikely that the implementation of a certain technology in one area would result in the disconnection, and decommissioning, of the gas network in the same area. Furthermore, GDNs are required to maintain the network until the last customer leaves, and the highly integrated nature of the gas network (which facilitates its high degree of resilience) means that until significant portions of the consumer base has disconnected, operation of the network must prevail.

Cost Recovery

We note that the consultation acknowledges the challenges for low-income households to participate in the energy transition⁷.

It should be highlighted that the financial element is one of many considerations, and wider challenges such as inappropriate housing stock and energy-dependent vulnerabilities can also represent significant barriers to adoption.

Whilst the suggestion to prioritise low-income households could have merit, it would only provide support to a limited demographic, and the wider risk of, particularly vulnerable, customers being left behind would persist.

As such, the ongoing challenge of cost recovery remains, including the associated costs of decommissioning. Specifically, it is widely acknowledged that diminishing gas customer numbers does not correlate with lower gas network costs and rather results in larger costs being recovered across a smaller funding base.

Furthermore, gas network companies must remain financeable even in the scenario of a declining customer base, with adequate protections for investors from the risks to financeability and investability associated with unclear cost recovery, which could otherwise lead to a higher cost of capital borne by consumers.

Lastly, enhanced DNO activities proposed in this consultation add a further layer of resourcing and funding requirements, likely exacerbating what is already becoming a challenging level of affordability of energy bills, without a clearly balanced cost/benefits case.

⁷ 4.9, p29, consultation document

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We also note the upcoming DESNZ Call for Input on Gas Network Cost Recovery, expected in 2026, and would strongly recommend that ED3 policy decisions are made in coordination and collaboration with this review.

In summary, SGN would recommend that significant caution is exercised when considering the enhancement of DNO roles at this point in time, and we are unable to support either proposed role. Rather, we would encourage more detailed engagement with all energy vectors and market stakeholders, not least to more clearly define how the proposals cohesively operate within the existing market arrangements, but also to ensure that the relevant government reviews can be undertaken and taken into account in, rather than being constrained by, any subsequent ED3 policy decisions. Lastly, the expansion of roles in any form should be strongly assessed from a cost/benefit perspective and should be clearly demonstrated as filling an otherwise un-addressed gap in net zero planning (which cannot reasonably be delivered by NESO in their existing remit) which is clearly in the best interests of customers.

Should you wish to discuss in further detail, please do not hesitate to contact me at Hilary.Chapman@SGN.co.uk.

Yours sincerely,

Hilary Chapman

Head of Regulation

Strategy & Regulation

SGN