



St Lawrence House  
Station Approach  
Horley  
Surrey  
RH6 9HJ

Ofgem

By email to [fwp@ofgem.gov.uk](mailto:fwp@ofgem.gov.uk)

21 February 2020

### **Forward Work Programme 2020-22**

SGN welcomes the opportunity to respond to Ofgem's Forward Work Programme consultation<sup>1</sup>. As you may be aware, SGN manage 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 ability to feed into it. We have responded to the key themes as they are set out in the Forward Work Programme. We would highlight that, in setting out the strategic objectives, consideration should also be given to the role of energy efficiency programmes. The Smart Metering and Switching programmes will lead to a higher level of customer engagement within the market, and as such provide an opportunity to empower customers to improve the efficiency of their own energy usage, contributing to the wider objective of decarbonisation.

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](mailto:David.Handley@SGN.co.uk)

Yours faithfully,

David Handley  
Head of Regulation  
SGN

---

<sup>1</sup> [Consultation document](#)

## Enabling competition and innovation which drive down prices and result in new products and services.

### Faster More Reliable Switching

SGN, alongside the GDNs, continues to support the Switching Significant Code Review (SCR), managing the consequential Central Data Service Provider (CDSP)<sup>2</sup> changes and also delivering the required amendments to Uniform Network Code (UNC). The drafting amendments coincide with those required in relation to the Retail Code Consolidation SCR<sup>3</sup>, which will reduce the number of gas and electricity codes by consolidating the relevant sections into the Retail Energy Code (REC). We support the view articulated in the consultation document that effective code governance contributes to a better functioning energy system.

As a GDN, our direct engagement with Switching activities, and the Switching Programme, is limited to the above central system and regulatory changes.

However, we support the intention of the programme to enhance supplier competition and innovation through enhanced consumer market engagement, and as such are focussed upon ensuring that our obligations to facilitate the programme are delivered.

As the switching programme progresses it is important that costs of delivering the multi-participant cross-industry changes are balanced against the anticipated consumer benefits, with a timely and proportionate implementation being sought to realise the benefits as soon as possible.

### Network Price Control Design, Development and Implementation

We appreciate and support the constructive engagement that has been made to date during the development of the RIIO-2 price control with our Consumer Engagement Group and the independent RIIO Challenge Group. We believe that this process has supported a higher quality plan and submission.

Having engaged fully with the customers and stakeholders need to ensure that the determination enables that consumer view to be fully represented. We are therefore pleased that the emphasis that Ofgem is placing on decarbonisation in its recent decarbonisation action plan is aligned with strong view of our stakeholders and customers that we reflected in our business plan of targeting reduction in greenhouse gas emissions, by improving the energy efficiency of our own operations and a strong focus on reducing methane emissions from our network given the potency of methane as a greenhouse gas.

In delivering net-zero we recognise that one of the most significant challenges is how to decarbonise heat with the least cost and the least customer disruption. As a result, we welcome the focusing of innovation on the energy transition and improved co-ordination with government departments. As a part of business plan submission we have identified key projects that we think need to be undertaken to determine the least cost pathway to heat decarbonisation.

It is important that Ofgem, regulated companies and interested stakeholders work towards a price control that is financially sustainable in the short and long term. We must all protect the interests of current and future customers, taking into account the need to invest in future decarbonisation as customers have asked us to do. In assessing financeability and our appropriate credit rating thresholds, we considered the following points:

---

<sup>2</sup> CDSP function provided by Xoserve, who will act as Gas Retail Data Agent in the new switching arrangements

<sup>3</sup> [RCC SCR Launch statement](#)

- The value to customers of a strong credit rating, a benefit which has been recognised by a range of different stakeholders;
- Intergenerational fairness - avoiding burdening consumers in the longer term given that decarbonisation investment for GD3 and beyond will be significant, increasing the critical importance of attracting appropriate investment at good value for customers;
- Long term financial sustainability of our company, including the ability to attract equity in future price controls;
- Stability and predictability of customer bills in the future to avoid the need for steep increases;

Linked to all of the above, investor appetite and confidence (both debt and equity) ensuring that our critical infrastructure investments are supported by strong credit metrics is a crucial plank of building confidence and reducing financing costs for customers today and into the future.

### Energy System Operations.

Whilst we recognise the important work that is being undertaken in the definition of the ESO and the DSO concepts, it is important that there is an informed debate on the role of the GSO and that it is not assumed that there is direct comparability between the gas and electricity networks. We are concerned that the concept of the GSO has not been fully thought through, may not be an immediate requirement and may not be in customer interests.

### Protecting consumers, especially the vulnerable, stamping out sharp practice and ensuring fair treatment

#### Protecting Domestic and Microbusiness Consumers

Protecting customers is core to our service. Each day we transport an inherently unsafe product to our customer in a safe manner which, in the most part, enables our customers to take our service for granted. However, on the rare occasion that we have interrupt a customer to engage in work on the network or there is an unplanned interruption then we recognise that we have a special obligation to ensure those that are in a vulnerable situation receive the support that is appropriate to them as an individual customer for the duration of any interruption.

We take these obligations seriously and continually look to improve our service and learn from our community partners and other networks. On this basis we have welcomed the vulnerability strategy and put forward an ambitious plan for supporting our customers and customers in vulnerable situations in GD2.

#### Competent Authority Regulation

We recognise the importance of cyber security in protecting our infrastructure and our assets, and we recognise that more needs to be done to deliver a higher level of resilience, as such we have put forward an ambitious and highly detailed cyber security plan in our business plan submission.

We remain concerned however that the focus of the NIS directive is on the operational technology, and the operating assets. We place as much focus on our information technology, in recognition that the

customer impacts of an effective cyber-attack on the IT systems could be as significant as on the operational technology, if not more so.

### Retail Policy and Compliance

We support the intention to drive competition between suppliers and consider that new entrants and challenger organisations are key to ensuring a dynamic market. However, we recognise the recent increase in Supplier of Last Resort (SOLR) noted in your consultation document and support the articulated intention to introduce new ongoing requirements and market exit arrangements to ensure that customers are protected and reassured in the event of a SOLR event.

As noted above, we are supporting code reform through our involvement with the REC and RCC UNC drafting and agree with the view that effective governance of the codes contributes to a better functioning energy system.

### Wholesale and system policy and compliance

We note that the close-down of the gas distribution price control is scheduled for 2022. Whilst we accept this timing we also encourage the process to start in a timely manner so that challenges in closing out GD1 can be recognised and learnt from and improvements incorporated into the GD2 licence drafting.

## Decarbonising to deliver a net zero economy at the lowest cost to consumers

### Smart Metering

As highlighted in our RIIO-GD2 business plan, we continue to assess on an ongoing basis the potential benefits should GDNs be required to participate as full users of the Data Communications Company (DDC) systems. We continue to engage with Ofgem and BEIS in relation to our involvement in the programme.

The anticipated benefits of the smart metering programme will be delivered by changes in customer consumption behaviour, triggered by an enhanced awareness and accuracy of their relative energy spend. By virtue of the heating and cooking nature of gas usage, changes in consumption behaviours may be more muted than those seen in electricity, as much of gas usage is time-bound.

However, we note that the enhanced level of expenditure information available to customers through the use of a smart meter and accompanying in-home display device may encourage homeowners to implement more general energy-saving techniques, such as insulation, in order to increase the energy-efficiency of their homes.

We support the view that the anticipated prevalence of smart meters will encourage suppliers to develop innovative, and potentially more tailored, products, and as such should enhance customer market engagement, driving competition.

### Decarbonising Heat and Transport, Approach to Supporting Decarbonisation

We have previously highlighted our concern that decarbonisation discussions have focussed on facilitating the energy transition in the electricity market with limited focus on the potential within the gas market. We therefore welcome the more recent consideration of the role which gas can play in

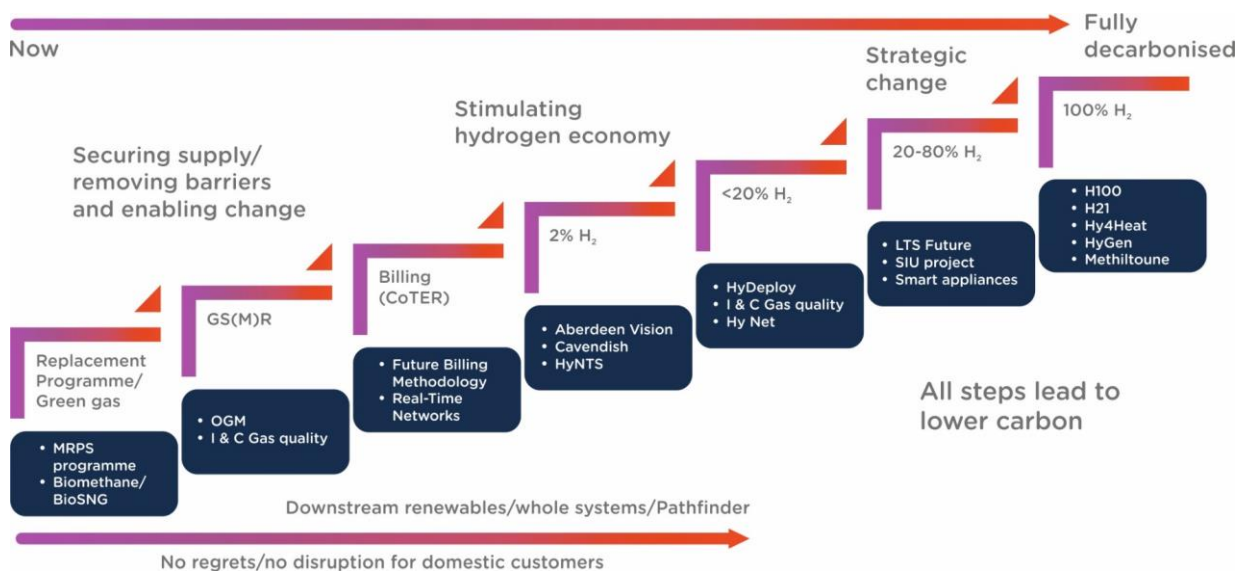
decarbonisation, highlighted specifically through your intention to engage with a wide range of stakeholders<sup>4</sup>.

The existing gas infrastructure is the most readily-available solution to deliver peak heating requirements in a highly responsive manner without significant re-investment. Gas is not only critical for providing the majority of the existing GB heating load – as the cheapest option for consumers, as you note – but also plays an increasingly critical role in supporting high penetrations of renewable electricity demand by facilitating the connection of flexible generation at the distribution level. As such, the gas networks already perform a fundamental role in supporting the wider provision of energy, and therefore a future decarbonisation strategy must make use of the highly valuable gas pipeline assets which already exist.

Steps towards enhancing the gas provision, particularly towards a lower-carbon mix, are already in place, with biomethane now providing the equivalent of 193,000 households in SGN’s network.

Furthermore, we are currently demonstrating the feasibility as well as practical implementation of alternative energy sources, such as hydrogen, using the existing infrastructure.

We welcome the increasing recognition, as expressed at the recent Forward Work Programme conference, that hydrogen clearly has an important role in the future energy mix. We need to scope the full nature of the role as a matter of urgency. In our business plan we set out the innovation activities that will enable us to progress through the decarbonisation pathway. The projects and the supporting information is available through the Business Plan appendix Energy System Transition ([www.sgnfuture.co.uk](http://www.sgnfuture.co.uk)).



SGN’s strategy, as detailed in our RIIO-GD2 business plan, is in line with the anticipated decision point of 2025 in relation to the future of heat, and therefore supports the wide-spread roll out from 2030 – 2050.

## Consumer Insights

We support the involvement of consumers in defining the roadmap to decarbonisation, and will continue to undertake stakeholder engagement in relation to our own plans through the relevant

<sup>4</sup> P21

industry fora in addition to the Customer Engagement Group established through our business plan preparation.