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By email to fwp@ofgem.gov.uk

16 February 2018

Dear Sir/Madam,

Draft Forward Work Programme 2018-2019

Thank you for the opportunity to respond to your consultation¹ in relation to the above.

At a high level, we are supportive of Ofgem's key priorities for 2018-2019 and welcome the structural and procedure changes detailed on page 20 to assist all market participants in engaging in a more focused and efficient manner. Please find below more detailed comments, which have been structured around each of the sections within the draft programme.

Section One: Enabling a better functioning Retail Market

SGN supports the drive towards an inclusive and competitive retail market. However, to develop the required functionality and behaviours, careful consideration should be given to the idiosyncrasies and consequent requirements of the gas and electricity industries, in order to build a fully complementary market.

For example, a primary benefit cited of the Smart Metering Programme is the availability of daily, and within-day, meter readings. Whilst this is of significant benefit to the electricity industry, this information provides little additional benefit to the gas industry in relation to network planning, capacity management and forecasting activities, primarily due to the low levels of within day price volatility, limited gas-relevant functionality and the strength of our existing models and methodologies.

If the meters were able to measure pressure and/or collect data relating to calorific measurements, this would be highly valuable to gas networks as it would enable more accurate billing (as we are exploring in the innovation projects – real time networks, and Cadent's future billing) and therefore the benefits could be passed to consumers. Such functionality could be considered within future SMETS releases, and as such SGN has been highlighting through the relevant Smart fora that customer impacts in a gas-specific context must be more thoroughly considered to enable a better functioning retail market.

Such a distinction between gas and electricity highlights the importance of ensuring a balanced approach between both fuels, in order to deliver solutions which are in the best interests of consumers across both markets.

¹ https://www.ofgem.gov.uk/system/files/docs/2017/12/ofg_forward_work_programme_2018_brochure_web.pdf

Section Two: Facilitating Change in the Energy System

We strongly agree with your assertion that the existing network infrastructure is “fundamental to ensuring security of supply and in keeping energy costs down”, and also key to the decarbonisation of energy.

However, similar to the above, we would highlight the risk associated with an electricity-biased approach. We consider there to be significant opportunities for the gas industry to drive the decarbonisation of heat, not least as initial analysis suggests that the existing gas infrastructure would be a more efficient consumer outcome given the scale and capability of the network in situ, versus the significant reinforcement likely to be required of the electricity network in order to satisfy future consumers’ energy requirements.

As a regulated body currently assessing the opportunities available in this regard, SGN would welcome Ofgem’s consideration of a Smart Heat Decarbonisation Plan, similar in nature to the Smart Systems and Flexibility Plan referred to in the Forward Programme. Such a plan would provide the opportunity to bring together government and HSE objectives, facilitate a robust evaluation of the various decarbonisation options and align with the legislative changes and code reforms required.

With regard to Network Charging and Cost Recovery, we agree that such fundamental changes to the energy environment should be complemented by a review of the associated charging methodologies in order to ensure consumers are benefitting from lower but also fairer costs. It is important that the reviews (and we are more familiar with the Gas Charging Methodology Review) should take into account the distributional impacts to consumers and should also include consideration of the most appropriate manner in which charges should be passed to the end user, to promote transparency and encourage confidence within customer bills rather than having changes being hidden or lost under a generic category.

Section Three: – Ensuring network companies deliver for consumers in a changing system – RIIO and the wider competitive regime

SGN considers that RIIO-1 constitutes a significant success story in transforming the customer experience and driving far greater standards than had previously been achieved. The stability of the UK regulatory environment has delivered a highly successful outcome in the reduced cost of capital, which is to the benefit of all consumers through lower costs, and SGN considers it of utmost importance that consumers continue to see these benefits.

RIIO-2 represents an opportunity to continue in this regard and also to promote legitimacy, ensuring that consumers are confident and reassured that their interests are being prioritised and protected. As such, SGN are supportive of the ambition articulated in the consultation document to ensure that RIIO-2 outputs reflect the requirements of both government policy and consumer requirements.

However, it is important to balance risk within the regulatory structure designed to incentivise consumer outcomes with the confidence of the investors. It is important to avoid the circumstance where the desire to incentivise a consumer outcome significantly increases the risk to which networks are exposed, undermining investor confidence.

Section Four: Identifying opportunities and managing long-term risk on behalf of consumers

We agree with the assertion that technology “will be a major driver of change in the transition to a low-carbon future” and welcome Ofgem’s intention to enhance capabilities in this regard. The pace of change observed in the energy industry is rapid and non-linear, and whilst we support Ofgem in the promotion of disruptive market development, there will be a challenge in identifying those opportunities with true longevity. As such we welcome Ofgem’s intentions to build upon the existing horizon scanning work and undertake research into potential system developments.

As such, it is critical that network investment strategies are able to create optionality, to ensure that our infrastructure can be used in the most flexible manner possible, reducing the need to elect one preferred technology over another before full assessments can be undertaken. In an electricity context, flexibility may centre on time-bound network response, whilst the gas industry must instead focus upon the physical characteristics of the network and the associated legislation and safety cases.

I hope the above observations are useful. Should you require any further information with regards to this response then please do not hesitate to contact me at David.Handley@SGN.co.uk

Yours faithfully,

David Handley
Head of Regulation
SGN