



15 February 2019

By e-mail to fwp@ofgem.gov.uk

Dear Sir / Madam,

Consultation on Ofgem's Forward Work Programme 2019 - 2022

SGN welcomes the opportunity to participate in Ofgem's Forward Work Programme. We are fully aligned to Ofgem's goals and committed to ensuring all SGN business has positive social, environmental and economic benefits. The drive for sustainability ensures we can continue to deliver safe, reliable energy to all the homes and businesses that use our network.

Over the next three years, your consultation paper has outlined a focus on:

1. Making retail markets work for all
2. Enabling future markets and system arrangements
3. Network preparedness and performance
4. Excellence in statutory and core functions

We acknowledge and welcome these goals. Below you will find SGN's detailed feedback on the Forward Work Programme.

In addition to these four key priorities, the consultation highlights that during the same period, namely 2019 – 2022 there will also be a focus on the UK's planned withdrawal from the European Union (Brexit). As there is a separate consultation paper on Brexit, SGN will send its response to that separately.

Section 1 - Making retail markets work for all

Firstly, SGN welcomes all efforts by Ofgem, BEIS and the UK Government to ensure the needs of all consumers are being met.

On 1st January 2019, Ofgem's Price Cap came into force. Consumers who have not already switched will now automatically have their prices capped to prevent suppliers from overcharging. On the face of it, this seems very positive. However, it is equally important to engage with consumers that remain on Standard Variable Tariffs for three years or more in a bid to understand their relative level of engagement in switching. Different customers will have varying motivations when it comes to switching, and SGN welcomes the efforts being made by Ofgem to understand such diversity.

SGN has taken a proactive approach to extending our partnership with the London Sustainability Exchange to engage culturally diverse communities where English may not be spoken as the first language. SGN strives to ensure all communities have the information they need so they can access all services and are keen to listen to all users of our network.

Furthermore, a key priority needs to focus on protecting the most vulnerable in society. We look forward to the updated publication of Ofgem's 2013 Consumer Vulnerability Strategy later this year. SGN has made significant progress with our community outreach programme. For example, our 'Help to Heat' programme has enabled almost 27,000 vulnerable consumers to benefit from a free connection to the gas network, along with the help we offer in securing central heating for their homes.

SGN is proud to advise that over 1500 frontline staff have been trained as 'Dementia Friends', and that the organisation has now been recognised as a Dementia Friendly Organisation by the Alzheimer's Society. Our staff also continue to promote the 'Locking Cooker Valve' safety device which is provided free of charge. SGN offers a wide range of additional safety related services and regularly receives positive feedback from both consumers and our partners for our efforts to champion consumer protection.

SGN is keen to see updates around the supplier license review. The past 12 months has unfortunately been shaped by several suppliers exiting the market. It should be noted that these market exits has a wide-ranging impact throughout the industry. For example, 'small' suppliers such as GB Energy, Extra Energy, Spark, and Economy Energy left the market owing in excess of £50 million of unpaid environmental taxes. GB Energy owed £6 million and Extra Energy, Spark and Economy Energy each owing £15 million. These suppliers also exited owing several creditors in the market which has an impact on gas shippers and can ultimately impact network operators.

A lack of sustainability among suppliers is something that Ofgem needs to address quickly to ensure a stable retail market that works for all. SGN hopes that Ofgem's Forward Programme of Work will address these risks in its supplier license review.

This consultation has stated failing suppliers is "to be expected in a properly functioning market." However, for many years multiple energy suppliers operated competitively without any failures. After the deregulation of the UK's energy market in the 1990s until November 2016, only one supplier ceased trading (2008). Efforts to increase competition in the energy sector prompted a flurry of new entrants, with a sharp rise seen from 2015 onwards and since 2016, more than ten suppliers have ceased trading.

There were 73 active electricity and gas suppliers in June 2018, compared with 60 in 2017 which was already a 400% increased from 2012 (14 suppliers). Whilst we support the principle of facilitating new market entrants, encouraging competition and providing consumers with choice, these supplier failures can surely or at least in part, be directly attributed to the number and speed of licenses provided for new market entrants. There is a balance to be struck between creating a highly engaged market and ensuring the stability of those same arrangements.

Section 2 - Enabling future markets and system arrangements

SGN welcomes efforts by Ofgem, BEIS and the UK Government to decarbonise heat.

It is now over 10 years since the Government pledged to cut carbon emissions by 80% by 2050 in its Climate Change Act. SGN continues with its efforts to support this goal and achieve greater sustainability through a wide range of initiatives. Gas continues to play a vital part in the transition to a low carbon economy and remains the most cost effective readily available solution when electricity generated from wind farms cannot deliver the flexibility needed to balance supply with demand. In addition, gas is a key strategic partner that underpins British industry and economic growth. These responsibilities should be justly recognised and rewarded through the building of the RIIO-2 regulatory framework.

During the current regulatory framework, SGN has invested in feasibility studies – for example the Hydrogen 100 Project - looking at how hydrogen gas can be distributed safely through a piped network into homes. SGN is on target to supply 250,000 homes by 2020 with gas from Biomethane plants. SGN also continues to be a part of Edinburgh University’s and the Natural Environment Council (NERC) focus group which looks at how future changes to the environment may impact our networks. Similarly, the SGN team has also worked with The National Trust demonstrating to local communities how climate change is impacting every aspect of life in the UK.

SGN shares Ofgem’s focus on initiatives that will drive the transition to a lower carbon economy.

However, it’s important to consider the potential impacts of these initiatives. For example, National Grid recently highlighted that up to 8GW of additional electricity on top of the current peak demand of 60 GW will be required by 2030 to support the increase in electric vehicles. This additional demand is equivalent to 2.5 times the output of the new Nuclear power station at Hinkley Point in Somerset. Our gas networks are best placed to support government policies focused on delivering a low-carbon Britain, but they should not be overly burdened by pricing controls.

Section 3 - Network preparedness and performance

SGN’s strong performance in RIIO-GD1 has resulted in our customers benefiting from reduced tariffs. However, there are also cost pressures that impact SGN and external factors over which we have limited influence. The UK’s planned withdrawal from the European Union has the potential to create economic disruption, which is occurring at the same time as the industry prepares for the next set of price controls under the RIIO-2 framework. SGN is firmly committed to:

- ✓ delivering better value for our customers, reducing bills and helping alleviate fuel poverty,
- ✓ delivering sustainable heat and energy options for homes and businesses,
- ✓ ensuring that all that we do is done as safely as possible for our staff and the public.

SGN is also fully committed to engaging with all stakeholder in shaping a balanced framework for GD2 and allows for SGN to continue delivering its sustainable energy solutions during a particularly unstable period in our history.

SGN is pleased to advise that we are working closely with all our stakeholders to review its Codes and their governance. In addition, through the Joint Office for Gas Transporters, SGN works on a wide range of projects that continue to deliver improvements to the performance and preparedness of our networks. For example, this includes reviewing how the network copes in the event of extreme weather, such as that experienced in February and March 2018. Your consultation document highlights that the work on

developing interconnectors continues, and the UK is increasingly reliant on these supplies from Norway and the Netherlands. In addition, the supply of Liquefied Natural Gas (LNG) by ship further supports the security of our gas supplies. Through the careful management of our networks, SGN was able to keep the gas flowing, even after supplies through the interconnectors and from LNG ships was severely disrupted with the extreme weather that resulted in a Gas Deficit Warning from National Grid on 1st March 2018.

Section 4 - Excellence in statutory and core functions

SGN welcomes Ofgem's commitment to protecting consumer interests and ensuring good value and services from the energy market.

SGN will continue to report our performance under the RIIO-1 price control regulation and will actively engage with all stakeholders on the development of RIIO-2. See above comments (section 2 and 3).

SGN also supports Ofgem's commitment to sharing best practice with other stakeholders. For example, and we are currently collaborating with the Supply Point Administration Agreement (SPAA) group in the design and implementation of data solutions in the energy sector. The benefits of being able to share data quickly, easily and responsibly with accredited third parties can help engage consumers and SGN is keen to see how progress in this area will help future communication strategies.

One final recommendation which we understand Ofgem is already considering is to present all future consultations under the guidelines of the Crystal Mark Plain English Campaign, which is aligned to excellence and better communications.

We hope SGN's feedback is useful to Ofgem as it develops its strategy to meet the challenges that the next few years will bring.

If you would like to discuss any of the points raised above, please feel free to contact me or a member of the SGN team via the contact details below.

Yours sincerely

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