

Issued by: Ofgem

Territorial extent: Great Britain

Response author: SGN

Deadline for responding: 10th February 2025

Response to Ofgem's Forward Work Programme -2025/26

1. Introduction

SGN support Ofgem's multiyear Strategy and the five strategic priorities, however, we would be cautious to assume that these priorities will remain the most effective and appropriate approach to the next five years of regulation. As mentioned through the consultation, we are seeing an enormous amount of change with a new government, the introduction of the National Energy Strategic Operator (NESO), and the aim for clean power by 2030. It is important that Ofgem remain committed to an annual review of their multiyear strategy in section 1.14 of the consultation. We would suggest that these strategic priorities need to be fluid and adaptable to suit customer's needs, ensuring customers feel protected and have a resilient and reliable energy supply through the uncertainty of what their future gas supply may look like in the move to a clean power system. Ofgem's duty to protect customers interest must be at the forefront of their future strategies.

2025 will also bring the final determination (FD) for the RIIO-3 Price control period. SGN are currently fully engaged in the process and encourage Ofgem to fully engage through working groups to resolve the complex issues that need to be addressed in RIIO-3 and that we have set out in our business plan submission. These ongoing communications with Ofgem are crucial to understanding and agreeing the most appropriate approach to RIIO-3. The DD will provide an initial view of Ofgem's proposed workloads and allowances for the RIIO-3 price control period. The draft determination will send an important signal to the market, and it is important that this supports investability and financeability for gas networks. It will be important to maintain appropriate flexibility within the RIIO period in order to reflect ongoing changes and improved understanding of how policy changes – such as the integration of the clean power 2030 programme may impact RIIO-3 price control period.

2. Clean Power 2030

- **Reforming the connections queue**

We agree that there needs to be a clear and driven path to connecting customers, with a view of clean power for 2030. SGN's H100 project in Fife to connect customers to green gas is progressing positively as well as our multiple biomethane sights. Progression of such projects can take time as this is a new and developing part of the sector, and with that in mind it is important that 'speed' is not the focus but reassuring our customers that they will maintain a secure and resilient supply during this time of change.

Both domestic and industrial customers will need an adequate timeframe to adjust and prepare for such a transition and especially those who are most vulnerable.

In order to achieve Ofgem's and the Government's goal, there needs to be an appropriate investment in the future, and this needs to be balanced with the need to protect customers

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financially from excessive cost escalation in the drive to deliver investment recognising that capacity and skilled labour shortage may constrain delivery.

- **Approving the network build needed-**

The details of this project are suggestive of sharp incentives for networks to deliver to time and budget. It would be good to understand what those sharp incentives will look like as there was no indication during the lead up to the submission of RIIO-3 business plans in December 2024. Depending on the design of these incentives there could be a significant change in the balance of risk associated with the price control.

- **Establishing a new cap and Floor regime for long duration energy storage and approving the first batch of projects under this scheme.**

Long-term energy storage is an essential requirement of the energy transition. Significant volumes of energy storage currently provided by the gas networks through the compression and decompression of gas, storing energy throughout their networks and across the supply chain to provide a significant element of within-day and across-day storage, and broader seasonality through the supply chain.

The gas networks provide a low-cost solution to a very significant problem and if the gas networks are to be replaced then it is very important to replicate this storage capacity to maintain the same level of resilience that the gas networks currently provide. Ensuring that this capacity can be provided in the most cost-efficient and investable manner is essential to delivering net-zero.

- **Removing regulatory barriers and working with government to create incentives for large scale deployment of demand-side response through reforms to retail, wholesale and balancing markets.**

We would agree that removing regulatory barriers will bring positive progression for consumers. However, this needs to be balanced with customer protection. The energy system and delivering net zero and maintaining customer protection cannot be sustained through competition alone and the appropriate level of regulation to protect customers and sustain safety and security of supply is important.

Beyond Cleaner Power

Strategic priority 1: Shaping a retail market that works for consumers

Debt and affordability

As part of our ongoing commitment to providing excellent customer services, and in particular, supporting vulnerable customers, SGN recognises the challenge of consumer debt within the industry, exacerbated by the recent unprecedented energy crisis. There needs to be an appropriate approach to managing debt, to ensure that it is managed effectively at the point where it is incurred, but also recognising that a significant number of customers experience significant fuel poverty and at times have to make impossible choices. It is better that this

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should be addressed through sustainable policy interventions rather than short-term measures to manage a problem once it has already arisen.

Ofgem note their continued preparations for new regulatory responsibilities for heat networks to ensure good outcomes for their consumers. SGN fully supports the protection of customers as a key duty for Ofgem, especially through the energy transition. There should be a particular focus on supporting the most vulnerable consumers as their journey to alternative energy supplies may feel uncertain. SGN will continue to provide support through our multiple partnerships with charities and other services where we help vulnerable households use their energy safely, efficiently and affordably.

Strategic priority 2: Enabling infrastructure for net zero at pace

SGN are in full support of enabling infrastructure in the journey to net zero by 2050 and understand that costs must be appropriately proportioned to protect consumers. However, equally, Ofgem needs to be open to investing in the long term and not put too much focus ON short-term savings to keep cost low. Investing in the long term will inevitably protect consumers by keeping bills low in the future transition.

We also agree with the need to go at pace; however, it is essential that any transition is led by our customers through technologies that are accepted by our customers. Moving too quickly risks losing the customers' perspective and therefore risks undermining confidence. We have concerns over customer acceptance will be achieved until the roles of the Regional Energy Strategic Planners (RESP), and the National Energy System Operator (NESO) have been established and the consumer voice and consumer evidence firmly established in their thinking.

The establishment of the RESP, and NESO will be a key part of enabling any future developments and therefore it is important that the policy framework, once established, and the regulatory remit for both are understood by all stakeholders. This will allow for effective collaboration between energy networks and regulators and enable us to bring our consumers along on the journey to decarbonisation.

This journey needs to pay equal attention to domestic, commercial and industrial customers and their respective needs of resilience, security of supply, competitiveness and growth to have a sustainable energy policy. For this progression towards net zero to continue 'at pace' as Ofgem suggests, it is crucial that the roles of RESP and NESO and how they balance with Ofgem's role for these customers are clarified as quickly as possible.

Both SGN's Climate resilience and Cyber resilience strategies support Ofgem's goal to build further resilience to the energy system. Through our reporting tools we continuously monitor and analyse the impact of climate change on our business in both Scotland and the south, using this data to ease those impacts. Our cyber strategy looks to ensure fast and effective protection to minimize any impact to energy infrastructure. Our RIIO-3 Business plan submission further endorses the need for both strategies and build on the progress of the current price control.

Strategic priority 3: Establishing an efficient, fair and flexible energy system

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As above, there is currently an area of concern and lack of clarity for SGN on the timeline for getting the NESO and RESP established and understood by all relevant stakeholders as well as the accountability of costs on a whole system basis.

At the heart of this transition is consumers and especially those consumers who are most vulnerable and who are least able to engage in the energy transition, the changes and plans being developed, and at what cost need to be debated and agreed in order to protect and reassure consumers.

In terms of artificial intelligence (AI) in the sector, SGN have provided our views on AI in the energy sector guidance in the most recent consultation. We would argue that the current regulatory framework is adequate to govern the use of AI in the energy sector, however, it is important to remain cautious about its use for both networks and customers. There needs to be a reasonable balance between flexible growth and responsible and safe use.

In addition, it must be considered that any introduction of any 'best practice guidelines' it is important that Ofgem work in collaboration with networks on guidelines that define scope and appropriate timescales for implementation of process, technology and skill sets required. It should also be noted that at the time of business plan submission there was insufficient clarity on expectations. Therefore, it is important that once developed there is an alignment between Ofgem's aspirations and the funding being made available to deliver those aspirations.

3. Ongoing routine regulatory Activities

No observations

4. Strategic Priority 4: Advancing decarbonisation through low carbon energy and social schemes

No observations

5. Ofgem Budget 2025/26

No observations