

SGN Independent Stakeholder Group
Annual Report 23 / 24

14 November 2024

SGN Independent Stakeholder Group (ISG) – Annual Report 23 / 24

Summary

We are very pleased that SGN's Independent Stakeholder Group (ISG) is now playing a substantial role in holding SGN to account for delivery of its GD2 Business Plan and providing assurance and challenge as they develop their Business Plan for the next price control, GD3. That balance has shifted through the year as the Business Plan deadline has got closer. However, we are happy that we have been able to retain a focus on current performance as well, recognising that this is the base on which they will be building in GD3. We welcome SGN's openness in all the discussions we have with them and the time that staff give to our work.

We are also pleased with the positive relationship that we have developed with Mark Wild (CEO) who has regularly joined our meetings and been ready to engage in open discussion. We are sorry that he is moving on but look forward to developing a similarly constructive relationship with Simon Kilonback, his successor. We have also developed a stronger relationship with the board through key members of the Stakeholder and ESG Committee.

As in previous years we remain strongly supportive of the excellent work that SGN do in support of vulnerable customers and the network of partners they have established, which has enabled them to respond quickly and make good use of the additional VCMA funding that Ofgem made available. We see a genuine desire to ensure that engineers never have to walk away from a customer in need and this strong customer service focus is reflected in the high satisfaction scores that SGN has delivered again this year with Scotland the leading GDN licensee.

We are again disappointed in SGN's performance on repex delivery in the South which is an important safety issue and also a crucial contributor to SGN reducing its own greenhouse gas emissions. However, we have been kept regularly updated and recognise the significant efforts that SGN have put into addressing the severe resource challenges they face in the South, with Mark Wild seeing this as his top priority and a continuing ambition to recover the position by the end of GD2. In particular we have been pleased with the efforts being put into bringing in more apprentices and building a more diverse workforce – a challenge that we had raised in our scrutiny of the GD2 plan. This is now bearing fruit. Other senior level changes have also been clearly aimed at improving contractor relationships and reviewing operational practices to get performance back on track.

One positive has been the significantly improved performance against the 97% target for attendance at emergency gas escapes which had been an issue last year and where we have been kept updated on progress, with SGN confident of their ability to meet the targets going forward.

In 23/4 there was an issue with the performance against the customer interruptions target (and financial incentive) in the South which we had not been sighted on and which appears to have taken SGN somewhat by surprise. SGN's initial explanation is that this is linked to the deterioration of larger pipes that are outside the repex programme (and where repairs take longer to do). However, we look forward to the results of SGN's full investigation.

In terms of customer and stakeholder engagement we have seen SGN continuing to make very effective use of grass roots engagement to help with building and maintaining consumer support for their H100 Fife hydrogen project. As the only domestic hydrogen for heat project left running we remain very supportive of this opportunity for learning – including on engagement which we see as critical whatever heat technology is ultimately adopted.

Looking ahead to GD3 we were very pleased that SGN kicked off their customer engagement very early, tendering for a project partner early in 2023 before it was even clear what the nature of the next price control would be, but recognising the time that was needed to do the job properly. They also responded to our call for a more deliberative approach to engagement that would yield real insights. We see SGN having gained a lot from this experience and we consider the approach that they have adopted to be exemplary.

SGN have also supported us as an ISG this past year as we have looked to innovate in bringing together stakeholders to debate the strategic challenges that SGN needs to think about in developing its Business Plan.

We are pleased with the messages that we have heard that reflect a more mature and nuanced view of energy futures rather than advocating for 100% hydrogen for domestic heat. That said, we have challenged SGN to ensure that it is more clearly demonstrating its commitment to supporting the GB in meeting net zero. We recognise that SGN has had to push hard to get the message across that there will be a need for continued investment in gas networks to keep them safe for as long as there are customers connected – which is likely to be for decades to come. However, this message itself needs careful handling to avoid appearing negative and SGN needs to ensure it is sensitive to the bill impacts as its customer base inevitably declines.

As an ISG we have consistently encouraged SGN to develop a more geographically granular picture of where hydrogen is more (or less) likely to play a role. We are pleased that SGN are now taking this postcode level work forward although it does not appear as yet to be impacting their approach in the Business Plan and we continue to press SGN to engage more widely with local authorities and DNOs to support local area energy planning. We are aware that time is very tight for completion of the Business Plan and are frustrated that the Ofgem process this time round has meant that we have not had the same early sight of drafts as we did in GD2. Nonetheless we have sought to provide constructive challenge on all the key areas of the plan, with ISG members “buddying” with SGN leads to feed in thoughts and views as thinking has developed. We hope this will stand us in good stead as SGN look to finalise their Plan in the coming months.

Introducing the ISG

While SGN was developing its GD2 Business Plan it had a Customer Engagement Group (CEG) which provided challenge to the company and assurance to Ofgem. In November 2021 Ofgem wrote to the companies and CEG chairs setting out its expectations that the companies would have an enduring CEG which would, among other things provide

“Independent periodic reporting to the company on the price control commitments the CEG or UG has been scrutinising. That reporting should be made public so that best practice can be shared and used by CEGs and UGs to drive improvements in performance across the sector”.

This report is intended to meet that expectation.

Following the review of membership in 2022/23 and the creation of the combined Customer and Stakeholder Group (CSEG) our membership has been stable but we have agreed to re-name ourselves the Independent Stakeholder Group, in line with Ofgem Business Plan Guidance for GD3.

The current members of the ISG – which are evenly divided between Scotland and the South - are:

- Maxine Frerk (Chair)
- Lucy McTernan (Deputy Chair)
- Syed Ahmed
- Eddie Lafferty
- Rosie McGlynn
- Matt Copeland (NEA)
- Simon Gill
- Martin Silcock.

Our engagement in 23 / 24

During 23 / 24 we held eight meetings – five virtual and three face-to-face which covered a wide range of topics agreed through discussion between SGN and the ISG chair. This was a very significant step up in the frequency of meetings compared to 22 / 23, reflecting the need to prepare fully for GD3. At each meeting we split our time between forward looking items (preparing for GD3) and our role in holding SGN to account for delivery of GD2, with a forward agenda for the year ahead.

The topics covered in 2023 / 24 are summarised below. Each meeting also included some CSEG / ISG only time, reflecting the importance of us maintaining our independence.

17-18 April 2023 (Edinburgh face-to-face):

- Stakeholder discussion and dinner (inc Mark Wild CEO)
- Data and digitalisation
- Cyber security
- Vulnerability Steering Group report back
- FPNES consultation
- Ofgem consultation on price control framework
- Update on GD3 consumer research

13 June 2023 (Full day Teams):

- Mark Wild CEO operational update

- Repex (current performance and look ahead to GD3)
- Net zero – innovation projects / SIUs / just transition
- Regulatory update – GD3 potential 2 year delay
- Regulatory Reporting Pack for 22/3
- Report from vulnerability and environment advisory groups
- CSEG terms of reference

13-14 September 2023 (London face to face):

- Stakeholder discussion and dinner
- Mark Wild CEO operational update
- CSEG reflections on Yr2 of GD2 (ref RRP)
- Annual Environmental Report
- Regulatory update
- GD3 planning and ways of working
- Policy review

30 October 2023 (Full day Teams):

- CSEG Annual Report sign-off
- Vulnerability (current performance and look ahead to GD3)
- Regulatory update
- Citizen's Advice – guest slot
- GD3 Plan for a Plan
- Consumer research update
- CSEG terms of reference

29 November 2023 (long half day Teams):

- Mark Wild CEO operational update
- Regulation and policy update
- Repex and workloads
- Stakeholder and consumer research update

9 January 2024 (half day Teams):

- Discussion on ISG Top 10 early challenges
- Policy update
- SSMC
- Re-openers
- Stakeholder and consumer research update

5 February 2024 (full day Teams):

- Mark Wild CEO operational update
- SGN Response on early challenges
- CSEG response to SSMC
- Environmental Action Plan
- Stakeholder and consumer research update
- Shrinkage
- Cyber security

11-12 March 2024 (Scotland face to face):

- H100 site visit and presentation
- Future of Energy / innovation
- Regulation update
- ED&I / skills, training and resource
- Data and digitalisation
- Stakeholder and customer research update

As well as the formal ISG meetings we have had an increasing number of other engagements through the buddying arrangements put in place at the start of 2024, debriefs with the research agency, participation in stakeholder engagement events, observing customer research sessions and an opportunity to observe the event held for the wider SGN leadership team at the start of the GD3 planning process. These wider engagements have helped give us a direct view of stakeholder and customer perspectives as well as direct access to the key players in SGN on particular topics. Again, we are grateful to SGN for the time they have given and their openness to having us involved.

Our reflections: SGN's approach to engagement

Delivering on its business plan commitments

One of the key commitments around engagement in the SGN GD2 Plan was the creation of two new advisory groups on vulnerability and on the environment. We are really pleased that SGN are continuing to make good use of the Vulnerability and Carbon Monoxide Steering Group established in July 2020 and the Environmental Advisory Panel established in January 2021. These groups allow SGN to draw on in-depth expert advice in these two crucial areas. There is a member of the ISG on each group which helps in both monitoring performance and preparing for GD3. These groups reviewed and provided views on the SGN Vulnerability and Carbon Monoxide Report and the Annual Environment Report respectively (see below).

Wider Business Engagement

With the focus shifting to GD3 we have had less time to explore SGN's "BAU" engagement which we have previously seen as one of its strengths including engagement around planned works and with local resilience fora.

On future energy issues, two members of the ISG who live near Fife have been able to observe a number of the engagement events for H100 Fife. They have been very impressed by the quality of the engagement noting that there is a spirit of openness with the community and a very strong trusted relationship developed through schools, local grass roots organisations and the council. We see this reflected in the fact that there has been strong local community support for this project. The ISG encouraged SGN to capture the lessons learned around this engagement to help inform future projects.

Preparing for GD3

We were pleased that SGN was proactively thinking about the engagement needed for GD3 back in 2022 well ahead of Ofgem confirming its RIIO approach, given the timescales involved in commissioning research. Since then, throughout 23/24 we have been kept updated on their choice of an agency to work with and have provided detailed scrutiny and challenge around the approach they intended to take – as discussed below. We are very pleased with the way that SGN has taken this feedback on board.

Board interactions

In the past year with changes at Board level we are really pleased to have been able to strengthen our links with the Stakeholder and ESG Committee at Board level and have had roughly quarterly discussions with a sub-group of the directors as well as an annual meeting with the full board to share the ISG views on both ongoing performance and planning for GD3.

Mark Wild as CEO has given generously of his time – regularly joining the ISG meetings for an update session and broad ranging Q&A. We look forward to continuing that engagement with his successor.

Our reflections: SGN's business performance

While there has been more time given to GD3 preparation in 23/24 we have also had more frequent meetings and so have been able to maintain an interest in SGN's GD2 performance, acknowledging our enduring role - but also as important context for GD3.

In preparing this report we have looked at [the Annual Report and Accounts](#) and the [Stakeholder Report](#) published alongside the RRP regulatory datasheets submitted to Ofgem. We have also seen the [Vulnerability and Carbon Monoxide Report](#) and the [Annual Environmental Report](#).

We also had a session after the year end, once performance data was available, where SGN talked us through the key regulatory reporting metrics as well as the key Annual Environment Plan (AEP) metrics which the Environmental Advisory Panel had been using to track performance.

While our Terms of Reference refer to holding SGN to account for delivery on commitments not covered by the Ofgem RIGs¹ we hope it is helpful (to SGN, Ofgem and wider stakeholders) to share our reflections on their performance on areas that Ofgem will also be scrutinising but where we have taken a particular interest because of their importance to customers and stakeholders.

Operational delivery

Emergency service – Getting to gas leaks within the statutory timeframe is clearly a priority and historically SGN has performed well on this metric. While SGN failed these metrics in 22/23 we have seen a committed focus to learning the lessons and addressing the challenges (which were exacerbated by a period of intense cold weather) and in 23/24 the 97% targets were comfortably met.

Repex – We note that SGN has again underperformed against its targets for the length of iron mains replacement (repex) delivered in 23/24, albeit by less than in the first two years. We welcome SGN's openness about the problems they have encountered including particularly resourcing problems in the South. We are aware that SGN's determination to deliver on this target has resulted in them spending 15% over their allowed revenues in the South, reflecting the escalating contractor costs in the region. SGN are still looking for ways to be able to catch up over GD2 but have acknowledged that this will be challenging in the South. We will continue to track performance in this area going forward given its importance from both an environmental and safety perspective.

Unplanned interruptions – In our end of year review with them, SGN flagged that they had incurred the maximum penalty for their performance on unplanned interruptions in the South in 23/24, which appeared to come as something of a surprise. An initial review suggested that this was the result of deterioration in tier 2 and 3 mains that were no longer part of the IMRRP², leading to a higher number of repairs which were also more complex, meaning customers were off supply for longer. SGN are carrying out a full review and we look forward to hearing more, including any implications for GD3.

Cyber and data – Cyber risks have been noted as a growing concern and priority for Ofgem, alongside an increased focus on open data. We have looked at SGN's current progress in parallel with looking at their plans for GD3 which seem to be in line with Ofgem guidance. We have also heard from the CEO about his ambition to "modernise" SGN in terms of its internal processes and

¹ Regulatory reporting instructions

² Iron Mains Risk Reduction Programme (mandated by the HSE)

systems. This should help with some of the operational challenges and efficiency and we look to hearing more as these plans develop.

Safety – Safety is a theme that has come through much more strongly in 23/24 with the aspiration for SGN to be a “zero harm” organisation (for both the community and staff). The ISG welcome this focus which reflects the priority that customers and stakeholders always place on safety.

Diversity / recruitment – One area that we had previously pressed SGN to do more work on – including broadening its engagement – was diversity and in particular how it could attract a wider pool of potential recruits. From the discussions we have had this year it is clear that SGN is continuing to make real strides in this area. Given the challenges SGN has faced with resourcing in the South, these efforts to attract applicants from a more diverse pool (with eg 19% of new recruits now female), and to use local stakeholder expertise in thinking how best to do this – is a clear priority. The use of CV-less recruitment was a key initiative this year that proved very successful in attracting a more diverse but high calibre intake. SGN has also introduced a range of new support networks to provide a safe space for what is an increasingly diverse workforce (and delivering practical change such as the focus on women’s and even maternity PPE). SGN recognises that more needs to be done but we welcome the real progress that has been made.

We also heard about the actions undertaken to markedly increase the number of apprenticeships, which was hugely encouraging. Going forward, data on retention would be of interest to the ISG.

Customers and vulnerability

Customer Satisfaction (CSAT) - We were pleased to see that in Scotland SGN again had the highest CSAT scores across all GDN licensees and that they had met their commitment to achieve 9/10 in the South, as well as improving their performance year-on-year and their ranking. With ever rising customer expectations this is a positive result, reflecting SGN’s commitment to understanding what matters to customers.

Vulnerability UIOLI - The Vulnerability and Carbon Monoxide Steering Group (VSG) has been valuable in helping SGN think through how best to make use of the UIOLI (use it or lose it) funding pot that Ofgem made available for supporting vulnerable customers and raising awareness of carbon monoxide risks. SGN’s focus has been on maximising the impact of every pound spent through co-creation with partners already working on the ground with communities and families and using data and evidence to identify the areas of greatest need.

With the government no longer funding the in-home works (ie new gas boilers) we were pleased that Ofgem agreed to allow the Fuel Poor Connections expenditure to be redirected to other forms of help with reducing heating costs for vulnerable households, as SGN had encouraged them to do. This increased the VCMA Funding available from £16.3m to £46.5m total, with the additional funding confirmed midway through 23/24. We have seen SGN make good use of that additional funding building on the strong partnerships they already had in this space.

In its Business Plan SGN committed to help 250,000 vulnerable customers to use energy safely, efficiently, and affordably over the course of the five-year price control period. We are delighted that in year three alone they have supported nearly 233,000 households and with the additional funding have doubled the target for the five-year period to 500,000. The continuing energy and cost of living crisis has had a catastrophic impact on many vulnerable households. SGN have helped support these customers through the partnerships they have formed with 110 charities and

community organisations, using the three-tier funding model, co-created with stakeholders as part of the Business Plan, to allocate their resources where it will have most impact.

At the stakeholder roundtable the ISG hosted in April 2023 in Scotland we discussed the challenges around a just transition and heard from front line advisers about the reality of the deprivation facing many households in Scotland as a result of the energy crisis. We also discussed the different political context in Scotland and heard about the important role that SGN played as part of the local resilience fora.

At the stakeholder roundtable we hosted in the South we heard first hand from partners about the real value delivered by the Safe and Warm community team and got a clear sense that SGN were the leading GDN in this space. This was also highlighted as an area where there is genuine GDN/DNO collaboration (which we would like to see more of in other areas).

Following these roundtables we published our [reflections](#) on the need for a broader conversation and also submitted a response to the Scottish government consultation on its Energy Strategy and Just Transition Plan.

Environment

Environmental Action Plan – Drawing on the expertise of its Environmental Advisory Panel, SGN has explored the issues around quantifying its Scope 3 emissions, its progress on waste management (which remains challenging), and also on biodiversity. These were not areas that the ISG focussed on particularly in the development of the GD2 Business Plan but are pleased that SGN is looking at how to push forward in these areas which we see as of growing importance. We recognise that SGN has not reduced its Scope 1 and 2 Business Carbon Footprint (excluding shrinkage) as much as anticipated which reflects supply chain challenges with electric vehicles for the commercial fleet. However, on biodiversity it has now carried out all the baseline surveys planned for GD2 and has initiated nine projects this year aimed at improving biodiversity at selected sites.

Leakage – Leakage had been a significant area of focus for us in the development of the Business Plan. We had heard a clear message from consumers during engagement on the Environmental Action Plan that SGN should “just fix the leakage” given that, at the time, it accounted for 97% of SGN’s Business Carbon Footprint (ie its total Scope 1 and 2 emissions).

In terms of performance against the GD2 leakage incentive SGN have outperformed their target and hence have earned a small financial reward. However, this reflects the narrow scope of the incentive as the underperformance on repex is not taken into account. Overall, SGN’s shrinkage and leakage fell by 3.6% year on year and will need to fall faster than this in subsequent years to hit the GD2 forecast (and ultimately to be on track in terms of a science-based target).

On a positive note, we are very pleased to see SGN continuing to roll out innovations like the stent bags and also starting to look seriously at the scope for real time methane detection which would ensure that the most leaky pipes can be identified earlier and prioritised. At present these initiatives are not captured in the shrinkage model (and hence not incentivised) but we continue to strongly support SGN undertaking these projects which have a clear real-world impact. Given the global commitments on methane reduction – and the potential benefits in avoiding dangerous tipping points - we continue to see this as a priority.

Energy Futures

Biomethane – Another area that we had pressed SGN to be more ambitious on in their GD2 Business Plan was biomethane injection, as a route to heat decarbonisation that could deliver benefits in the short to medium term – and now increasingly also seen as supporting security of supply.

With five new connections in 23/24 and a number of other significant projects that are under development, SGN looks well placed to meet its GD2 ambition of the equivalent of 450k homes to be served with biomethane.

In addition to the number of connections we had encouraged SGN to look at what more it could do to avoid biomethane injection being constrained off at certain times of year. On that basis we are pleased that the PCD on biomethane improved access³ (which we had strongly supported) is on track.

We have also been closely following SGN's work on a proposal for new biomethane sites in Invergordon, where a proportion of the gas produced could be compressed and transported to Wick and Thurso SIUs. The biomethane production at Invergordon is from distillery waste so is a circular economy approach. SGN would take gas off the SGN network to compress and fill road tankers to transport to Wick and Thurso which hugely reduces the cost associated with the logistics chain currently needed to ship gas from the Isle of Grain. As an ISG we have been very supportive of this project and are looking forward to seeing more of this innovative thinking. With a lot of detailed planning already undertaken the intention is to include this in the GD3 Plan.

Hydrogen - Another strong area of focus for the ISG has been around SGN's ambitions on hydrogen and the major projects that it is undertaking to help inform government policy on domestic heat decarbonisation and to support the development of hydrogen in line with the net zero strategy.

Although there have been some delays on the H100 Fife project (installing a 100% hydrogen network to serve c 300 homes), we are happy with the progress being made and the level of support for / interest in the project, reflecting the strong engagement noted above. The ISG had a visit to the site in early 2024 including viewing the demonstration homes.

We have also seen effective engagement on the LTS Futures project to test the use of hydrogen in an existing decommissioned pipe where again local communities needed to be informed and reassured about what was proposed.

Overall there is significant policy uncertainty around the future of gas and we fully support the work that SGN (and the other GDNs) are doing to provide evidence to inform future policy decisions. We are pleased that SGN now seems to be taking a more mature and realistic stance around the future role of hydrogen in domestic heat (ie as one of a number of possible solutions). Linked to this, work is now ongoing looking at a postcode level at the likely transition pathways which should help with longer term planning of the network. We have also welcomed a growing focus on understanding the future needs of industrial and commercial customers which has been a long-standing challenge from the group.

³ This targets biomethane sites where there is a potential to intervene to increase injection rates through eg reverse compression, reduced propane injection, and pressure management to optimise a site's ability to flow.

Preparing for GD3

Through 23/24 we have had wide ranging discussions with SGN about the broad direction of the various strands of its GD3 Business Plan although it was not until summer 2024 that we started to see any text or concrete proposals.

A huge amount of work has been done through 23/24 on the consumer engagement and we welcome the transparency of the SGN team and their readiness to take on board our feedback. Two members of the ISG in particular have been having weekly calls with the SGN team to review and challenge the approach being taken in the different phases of the research and to test the findings coming out. I am grateful to them for the time they have given and we are able to say with confidence, based on this work, that the engagement that SGN has done is sector leading and, through making more use of deliberative techniques, provides genuine insights that have helped them build their Plan. As a part of our early thinking for GD3, we were very pleased that SGN supported the ISG's desire to engage directly in discussions with stakeholders around some of the more complex issues, hosting panel sessions in Scotland and the South which we found really thought-provoking, as discussed above.

In our early challenges to SGN on their engagement we raised a concern about their lack of understanding of and engagement with I&C customers which we were pleased to see was increasingly being addressed, in particular through their work on the Future of Energy. We have also continued to press on the importance of engagement with local authorities and DNOs.

Given the importance of the regulatory context, the ISG put in a [response](#) to the Ofgem consultation on the Sector Specific Methodology (submitted in February 2024) highlighting the critical importance of safety, the invaluable role played by VCMA funding, the need for more urgency in addressing methane leakage, welcoming the debate on asset stranding risk and managing an uncertain future.

We have also been concerned about the compressed timetable for GD3 and would note that, as a result, unlike in the equivalent period in GD2 we did not see any draft sections of the plan or formal proposals in 23/24, although we had open discussions on the issues.

Conclusion

2023/24 was another difficult year for SGN in terms of resource and supply chain challenges but with a sense of progress being made. It was also a difficult year for many customers with SGN facing increasing demands for support to its most vulnerable customers who are struggling to afford to heat their homes.

Alongside the focus on these immediate issues, we welcome SGN's commitment to helping tackle the global challenge of climate change by continuing to provide the evidence to government on hydrogen for heat but also through a growing recognition that there will need to be a mix of solutions including an important role for biomethane which can deliver near term carbon savings without any need for customer action.

We are also pleased to see a growing focus on what can be done to reduce their own methane emissions in the near term. The IPCC have made clear that this is almost the only way to avoid irreversible climate change (as reducing short-lived methane emissions is the only way to reduce the stock of greenhouse gases in the atmosphere).

Looking back over the third year of GD2 we are pleased that as an ISG we have a growing influence and believe strongly that having been on this journey with SGN means we are well placed to provide constructive challenge to them as they finalise their Plan for GD3.