SGN Independent Stakeholder Group

Annual Report 25/26

3 September 2026

SGN Independent Stakeholder Group (ISG) – Annual Report 25/26

Summary

Over the past year SGN's Independent Stakeholder Group (ISG) has played a vital role in providing scrutiny and challenge to SGN as it finalised its GD3 Business Plan, delivered the final year of GD2 and prepared for GD3.

GD3 Business Planning

In August 2025 we provided a full response to Ofgem's Draft Determination on GD3 where we welcomed Ofgem's increased funding for vulnerable customer support through the VCMA allowance but highlighted some areas where we shared SGN's concerns around proposed cuts to allowed expenditure. These included innovation, RESP engagement and some safety related activities including multi-occupancy buildings (MOBs). We expressed our support for SGN's work on biomethane. We hope that our response helped inform Ofgem's decision ultimately to provide more funding in these areas.

While we were briefed on Ofgem's Final Determination and the decision to launch a CMA appeal, we have had no role in these.

Rather, our priority has been to be clear whether cuts to funding meant any of SGN's GD3 Commitments were no longer deliverable. Given our role in holding SGN to account for delivery of its Commitments this was important to us – and had been problematic in GD2. We are pleased that SGN has confirmed it is still aiming to deliver against all its GD3 Business Plan Commitments.

GD2 Delivery

While the GD3 process took a lot of our time, we were also able to focus on GD2 performance, recognising that this is the base on which SGN will be building in GD3. This report majors on that aspect of our role given we separately responded on the GD3 Business Plan process.

In the last year SGN has strengthened its senior team and moved from 5 to 9 regions in the South. This has reportedly helped them in delivering what is their strongest operating performance of the five-year regulatory period. We welcome the significantly improved performance on repex delivery, safety and on winter resilience which sets SGN up well for GD3. We also share SGN's delight at being ranked numbers 1 and 2 in the customer satisfaction league tables, which represents a major achievement.

We have been kept updated on SGN's performance on repex delivery in the South which they had struggled with in the first three years of GD2 (linked to contractor availability). There was positive progress in 24/25 which they have built on further in 25/6. For Tier 1 repex delivery, the annual delivery was ahead of target for the year and SGN ended the period just 72km behind the GD2 overall target of 3,001km. This major turnaround is important as this is a key safety issue and also a crucial contributor to SGN reducing its greenhouse gas emissions.

Beyond repex, SGN has delivered against all of its operational targets this year including unplanned interruptions which had previously proved challenging. The one area where SGN has missed a number of its GD2 targets is on the Environmental Action Plan with problems obtaining suitable EVs for heavy duty operational work, which has then had an impact on SGN's progress in reducing its carbon footprint. Waste is another area where performance fell short and which requires cross-organisational focus.

We remain strongly supportive of the excellent work that SGN do in support of vulnerable customers through the network of partners they have established. 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. Other customer outcomes have also improved significantly, with reductions in complaints, improved guaranteed standards performance, and faster restoration following interruptions.

Finally, we strongly support the work that SGN are doing to increase biomethane injection into their network as an effective way to reduce carbon emissions and are pleased that they now have the capacity to serve the equivalent of 360k homes with biomethane.

GD3 Preparation

We were reassured that SGN started thinking about GD3 readiness early in 25/6. The actions they have taken with contractors and internal restructuring which have helped them deliver in the final year of GD2 will also be key for GD3. We were also pleased that SGN ran the CMA appeal with a ring-fenced team so as not to distract from GD3 preparation.

We have talked about the challenges SGN face with vulnerability partners disappointed in the year-on-year reduction in funding for VCMA and support SGN's efforts to work with them to manage the situation, within the overall funding envelope. We have also worked with Ofgem and other GDN ISGs to help shape the new role ISGs are expected to play in overseeing this work.

On engagement we have welcomed SGN's commitment to continue with the Future Supergroup Panel, set up to enable deliberative discussions with informed consumers. We also commend the work of the Stakeholder team in running professional events which we expect to see continue.

Finally, at the end of 2025, together with SGN, we carried out a formal evaluation of our performance as an ISG. We were pleased that as well as delivering against the formal requirements from Ofgem, SGN could see the value that we brought as informed stakeholders participating in wider industry events and "bringing the outside in". We agreed priority areas for us to focus on in terms of our monitoring role and are pleased that we will be hitting the ground running in 26/7, albeit moving to less frequent meetings until GD4 planning starts in earnest.

We welcome SGN's openness in all the discussions we have with them and the time that staff give to our work. We are developing a constructive relationship with Simon Kilonback, CEO since December 2024 – a relationship that we would like to build further. We also have a strong link with SGN's Board through the Stakeholder, Strategy and Environment Committee (SSEC).

Looking ahead

As an ISG we have highlighted a number of areas that we want to examine closely in 2026/7 beyond our regular focus on customers and engagement. These include workforce, engagement with DNOs and RESPs, building understanding of I&C customer needs, treatment of multi-occupancy buildings, SGN's innovation strategy and thinking around the future of energy, including the role of the SIUs. Recognising the scale of uncertainty affecting the sector over the next two decades we see it as critical that SGN are leading thinking in these areas and working with others to build consensus where possible. We look forward to supporting them in this challenge.

Introducing the ISG

In November 2021 Ofgem wrote to the companies and CEG[1] chairs setting out its expectations that the companies would have an enduring CEG [ISG] which would provide *"Independent periodic reporting to the company on the price control commitments the CEG or User Group 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.

We have had some discussion with Ofgem around their expectations for our ongoing role in GD3 and hope that we will get more clarity on that shortly.

Following the review of membership in 2022/23, our membership has been stable. The current members of the ISG – which are evenly divided between Scotland and the South - are:

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

The group has a wide experience across different areas of consumer and stakeholder interests. Biographies are available on the ISG section of the SGN website.

Our engagement in 2025/6

During 25/6 we held 6 formal meetings - including a two-day face-to-face session - covering a wide range of topics agreed between SGN and the ISG chair. This was a notable reduction in the frequency compared to the 13 meetings in 24/5, which was the peak in the Business Plan process.

Through 25/6 we were balancing our three distinct roles – ongoing input on GD3 Business Plan development and in particular responding to Ofgem's Draft Determination; holding SGN to account for delivery in the final year of GD2; and preparing for GD3 delivery. The main topics covered in 25/6 are listed overleaf. Each meeting also included some ISG only time, which remains crucial for us in maintaining our independence.

As well as the formal ISG meetings we have continued our engagement through the "buddying" arrangements put in place at the start of 2024 (whereby pairs of ISG members meet with the SGN leads for deeper dives on particular topics). In addition, we have participated in stakeholder events and observed customer research. This has helped give us a direct view of stakeholder and customer perspectives as well as direct access to the SGN leads. Again, we are grateful to SGN for the time they have given and their openness to having us involved.

We have also participated in the meetings that the ISG chairs have had with Ofgem and the NESO which are helpful in giving a broader industry perspective.

In the past year we are pleased to have been able to maintain our links with the Stakeholder, Strategy and Environment Committee at Board level and the ISG chair has had roughly quarterly discussions with the relevant non exec directors (which includes the Board chair).

[1] Consumer Engagement Group – the predecessor to the ISG

Key agenda items discussed in 25/6

17 April (half day Teams)

- Darren Elsom (COO) update
- GD3 Business Plan Update
- Customer research on accelerated depreciation
- Heat policy context – carbon budget 7 and GG Taskforce
- VCMA

3 July (2 hour Teams)

- Overview of Draft Determinations and initial reactions

17 July (Full day - hybrid London / Scotland)

- Research and engagement update
- Customer service – GD2 / GD3
- GD3 Draft Determinations
- Simon Kilonback (CEO) state of the nation
- Environment – GD2 / GD3
- Safety – GD2 / GD3

8 September (Full day - Teams)

- ISG Annual Report
- Stakeholder engagement and research
- Draft Determinations Final Response
- NESO RESP – Bridget Hartley
- Heat policy context inc Warm Homes Plan
- RRP – 2024/5 performance

10 November (Half day - Teams)

- GD3 Update
- MOB Buyout approach
- Long Term Development Statement
- Biomethane

21-22 January (2 days - face to face London inc site visit)

- CEO Simon Kilonback – update and strategic reflections
- Final Determinations
- Operations – GD2 performance and GD3 readiness
- Customer service - GD2 performance and GD3 readiness
- Environment – GD2 performance and GD3 readiness
- Stakeholder engagement and research
- ISG role in GD3 (and review feedback)

Our reflections: SGN's approach to engagement

Overall we have seen a welcome expansion of SGN's engagement activities and a growing maturity in how they manage events on key topics. A lot more is now managed in-house and we commend the work of the Stakeholder team who run well co-ordinated, professional events.

Expert advisory groups

We are pleased that SGN are continuing to make good use of the Vulnerability and Carbon Monoxide Steering Group and the Environmental Advisory Panel. These groups allow SGN to draw on in-depth expert advice in these two crucial areas. A member of the ISG sits on each group which helps in both monitoring performance and preparing for GD3.

Wider Business / Operational Engagement

As part of the regular updates on engagement we heard about and welcomed various initiatives to work with stakeholders on key operational issues. This included:

- Engaging with local authorities and DNOs on MOBs – covering both SGN's ambitions for a whole system approach (buying out customers where that is a cost-effective alternative to costly replacement of risers) and Ofgem's position in Draft Determinations
- SGN's "regional repex" approach aimed at improving engagement around planned works
- A "Safe and Warm" event, informing local stakeholders about the support available for vulnerable households.

A number of ISG members attended the cross GDN VCMA Showcase event which was highly praised. The ISG encouraged SGN to think about how some of the material from the event could be used to bring this important area of work to life for more senior Ofgem colleagues.

We have always been keen for SGN to build a better understanding of its I&C customers who account for around 40% of the gas consumed in SGN's areas. We were therefore very pleased that SGN have created a new role to lead that work and are keen to hear more about progress in 26/7.

It was noted that several core surveys are now fully embedded and providing consistent longitudinal data, allowing trends to be tracked over time and supporting more evidence-led decision-making. For example, the stakeholder satisfaction survey is now in its ninth year, with SGN remaining the only GDN to have tracked stakeholder satisfaction consistently over this period. Results and insights are being shared more proactively across the organisation, to drive practical improvements in behaviour, communications and delivery.

We have also discussed the use of AI guided interviews to enable more cost effective but wider engagement on regional projects like repex. The ISG raised important considerations around accessibility, bias and digital exclusion and agreed to keep the new approach under review.

Future energy engagement

An ISG member attended the SGN Innovation Showcase which included a wide cross section of stakeholders, opening up debate around some of the future challenges being explored through innovation projects.

Two ISG members attended SGN's Biomethane Futures event in January which was praised for its strong speakers, engaging content and high levels of engagement with stakeholders. Continued strong engagement was reported across the biomethane supply chain, including developers, agricultural stakeholders and government.

This built on the biomethane survey which had been presented to the full ISG. On the survey the ISG felt that overall satisfaction scores in the 7s were underwhelming for such a strategic area and encouraged the team to use the survey results to identify potential areas for improvement.

Two members of the ISG who live near Fife have been able to observe a number of the engagement events for H100 Fife (SGN's hydrogen to homes project). They have consistently been 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. That said there have been concerns more recently about the handling of the delays to the project and the uncertain future of hydrogen for heat. The ISG has encouraged SGN to capture the lessons learned from this engagement to help inform future activity on heat decarbonisation, whatever the solution.

Policy engagement

Given the impact that government policy decisions can have on SGN's future and on the consumer experience and net zero, we have taken time over the past year to drill down further into the work of the industry-led Green Gas Taskforce (GGTF). This includes biomethane's role which we have been consistently supportive of and is directly relevant to our role. SGN have also presented their work on hybrid heat pumps where we are more agnostic but which remains important context. On this we noted that the GGTF were very focussed on the whole system benefits and we encouraged SGN to also explore the consumer experience.

In the development of the GD3 Business Plan we took a strong interest in how the introduction of RESPs will affect SGN's role and see this as requiring more engagement and more data from SGN, as well as closer working with DNOs. Building on this we were delighted Bridget Hartley (RESP Lead at NESO) was able to join one of our meetings and put this work in context. With full RESP (now due end 2028) focussed on setting common assumptions and supporting whole-system trade-offs, this is an area that the ISG will want to keep under review going forward. The ISG stressed to NESO the need to include a focus on I&C demand and the role of biomethane.

We are very conscious of the scale of uncertainty facing SGN and the sector over the next two decades and the importance of SGN fully engaging with this. That means both leading thinking and working with others to build consensus where possible. We have been pleased to see SGN looking to actively lead discussion in the energy space – for example through the sessions they convened at All Energy in Glasgow (which attracts a wide audience) – and encourage them to continue to do this. While industry debate tends to centre on electrification, we see SGN as well placed to emphasise messages around affordability and the needs of smaller I&C customers, as well as helping local authorities understand the full range of options.

We have also consistently pressed SGN to think more about the implications of the Government's plans for increased growth in district heating (alongside the introduction of heat network zoning), including the implications for gas disconnections. Improved co-ordination at a local level is important from both a policy but also operational / safety perspective.

We will continue to keep a watch on this area with government announcements expected in the coming year on the Hydrogen Strategy and future framework for biomethane production in the UK.

Preparing for GD3 – Ongoing Panel

We have seen SGN gain real insights from the deliberative research that we encouraged them to undertake and are delighted that they will be continuing with a "Supergroup" of informed consumers that they can use to explore the complex challenges they face going forward. We see this as a valuable and relatively unique customer insight asset within the sector.

We are aware that on cost grounds SGN are proposing to run most of these sessions themselves going forward and have flagged the risks around (actual or perceived) bias. A member of the ISG has been attending the panel as an observer which we are happy to continue doing and which helps mitigate some of that risk. While we recognise that there is a tradeoff to be made, using an external agency as facilitators does provide additional objectivity and credibility which is important where the results are to be used for advocacy rather than just internally.

As an example, we heard about the research that SGN undertook with this panel on accelerated depreciation which was shared with Ofgem to help inform their decision on the topic.

The Future Energy Supergroup panel is now being held quarterly and is being positioned as a long-term forum to support transparency and accountability during GD3 delivery. We are keen to see SGN using the Panel to explore a mix of strategic policy questions (to help inform the wider debate) and more practical issues around SGN's operations. It has been agreed that panel sessions should be aligned, where possible, with ISG priority topics.

Our reflections: ISG Review

As preparation for GD3 we undertook a review of the ISG membership and its ways of working. As a part of this the ISG chair had one-to-one discussions with each of the ISG members. SGN colleagues talked internally, including taking advice from their corporate governance team and held discussions with SGN Exec and Board colleagues. We then compared notes.

On membership we agreed that the ISG covered all the necessary areas of expertise and worked well as a group, often sharing information between meetings which also helped in maintaining our independence. All members felt they were able to make a real impact on behalf of consumers which was the reason they undertook the role. We recognised the value in having some element of refresh of the membership but were happy that this could be done as part of natural churn (rather than asking people to stand down) and that for the first year of GD3 continuity was helpful.

From SGN's perspective they valued the external perspective and "outside-in" challenge that the ISG brings, which highlighted the value of having sufficient time for open discussion rather than purely presentation-led sessions. The Board SSEC found the external perspective and insights of real value.

SGN also noted that as informed stakeholders there could be real value in the ISG participating in wider stakeholder / industry events, where our understanding of issues could help the debate. ISG members were generally happy to play this role, linked to their areas of interest / expertise – provided it did not impinge on their independence, noting that our primary role is to champion the interests of consumers.

From SGN's perspective the ISG's effectiveness is strongest when it focuses on material issues and strategic risks, rather than detailed operational oversight. The ability to test thinking, stress-test assumptions and bring different perspectives into the room were highlighted as key strengths. The ISG can also provide a stress test for messaging and policy positioning.

In terms of ways of working, SGN were keen to ensure that ISG activities were prioritised with clear expectations around the time commitments for meetings, buddying and external events.

Given the focus in Ofgem guidance on delivery of the Commitments these would be used as a structure for prioritisation, with the ISG engaged on any relevant reopeners or areas of significant uncertainty.

The ISG Terms of Reference were seen as broadly appropriate but require a refresh to clarify purpose and focus for GD3. Ofgem expectations for GD3 remain high-level, with emphasis on annual work plans and tracking Commitments. The ISG chairs have pressed Ofgem for more clarity as to what is expected in terms of the ongoing role and any future reporting. If further guidance is provided then the Terms of Reference will be revisited.

It was agreed that there should be four formal ISG meetings per year (until GD4 planning kicks off in earnest). Meetings should be discussion-led with papers shared in advance. The aim would be for at least one in-person meeting per year. A forward work plan would be developed.

Strong positive feedback was given on the buddying model, which enables deeper engagement and accountability. Frequency should vary by topic, avoiding an unnecessary meeting burden.

SGN's Tony Green confirmed he is the Senior ISG sponsor and will attend future meetings.

Our reflections: SGN's business performance

In preparing this report, as well as drawing on the discussions we have had as an ISG, we have looked at the 2026 Annual Report and Accounts and the Stakeholder Report published alongside the RRP regulatory datasheets submitted to Ofgem. We have also seen the Annual Innovation Summary, the Vulnerability and Carbon Monoxide Report and will review the Annual Environmental Report when available.

Following the appointment of Darren Elsom as SGN COO in December 2023 and then Simon Kilonback as CEO in December 2024, we have seen welcome steps to further strengthen the senior team to enhance SGN's delivery capability. We have not yet met many of the new members of the senior team but hope that over the coming year there will be opportunities to do so.

The decision to move from five to nine regions across the Southern network has reportedly enabled more localised decision-making and closer alignment with the communities SGN serve. By improving "operational grip" it will have contributed to the improved performance in the South.

Operational delivery

Emergency service – Getting to gas leaks within the statutory timeframe is clearly a priority. We were pleased that again in 25/6 SGN comfortably met the 97% requirement – with figures for uncontrolled escapes in Scotland of 99.5%, South 98.8% (and higher figures for controlled escapes).

Repex – Over the first three years of GD3, SGN underperformed significantly against its targets for the length of iron mains replacement (repex) delivered in the South, linked to contractor resourcing problems. SGN were very open with us about these problems, the actions they took to rebuild delivery capacity and the costs that has entailed. We see this as an important area both in terms of safety and the environmental impact.

We were therefore very pleased with the significant progress made this year – delivering 1054km across the two regions, 64km more than in 24/5, itself a big step up on the earlier years. Although SGN still fell slightly short of their overall Tier 1 repex target for GD2, this will be recovered in the early years of GD3 and SGN have engaged constructively with the HSE to agree the risk profile for the revised programme.

Unplanned interruptions – SGN met their performance targets this year in what has been a difficult area with penalties incurred in previous years, linked to challenges with MOBs and other issues. This is another welcome example of how SGN's operational performance has stepped up this year.

Multi-occupancy buildings(***MOBs***) – This is an area that the ISG took a strong interest in as part of GD3 planning, noting the very costly but crucial riser replacement programme needed to maintain safety – but also the opportunity to proactively move MOB customers away from gas where that is more cost effective. The challenges in dealing with unplanned interruptions in MOBs is a further reason for taking a proactive approach. We were concerned about Ofgem's initial rejection of safety-related funding in this area at Draft Determination but were pleased it was reinstated when more evidence was provided.

On proactive replacement the challenge lies in balancing consumer choice and legal obligations. If even one customer in a MOB wants to stay on gas, the legislation requires gas to be restored to the building. The ISG were very pleased to hear about the number of cases where SGN was able to buy out remaining customers in MOBs where otherwise expensive riser replacement work would be needed. This efficiency benefits both SGN and its customers. The ISG noted the challenges with the voluntary approach and encouraged SGN to explore with Ofgem / DESNZ options to make changes to the obligation to supply and the definition of "reasonable demands". We also encouraged more engagement with local authorities on this topic.

Cyber and data – Cyber risks have been noted as a growing concern and priority for Ofgem, alongside an increased focus on open data. We welcome a growing focus from SGN on the use of data to "modernise" its internal processes and systems and in making data available to stakeholders through a new data sharing portal.

Safety – Safety has again been given a particular focus this year with the aspiration for SGN to be a "zero harm" organisation (for both the community and staff). 25/6 saw the launch of SGN's Zero Harm initiative, reinforcing a culture where every colleague feels personally responsible for their own safety and the safety of others ("We Care, We Own, and We Learn").

We welcome this continued focus – and improving performance - which reflects the priority that customers and stakeholders always place on safety.

Workforce fatigue rules were acknowledged as a growing challenge for the sector and one we intend to revisit in the coming year.

Diversity / recruitment – This has been a focus area for the ISG historically although we were not able to explore the issue in any depth this year. Given the resourcing challenges SGN face there is an ongoing need for focus on this issue, especially in the Southern network. We have plans to visit the Glasgow training centre in January and look forward to hearing more about SGN's progress then.

Customers and vulnerability

***Customer Satisfaction (*CSAT)** - We were very pleased that in Scotland SGN had the highest CSAT scores across all GDN licensees for the tenth year running (scoring 9.56) and that the South ended the year at an impressive 9.49, putting them second overall – up from sixth at the start of GD2.

With ever rising customer expectations this is a superb result, reflecting SGN's commitment to understanding what matters to customers. Improvements were attributed to a range of operational changes, including the move to nine regions in the Southern network, closer integration between customer and operational teams, and sustained focus on interruption management and restoration times.

On complaint handling the latest Q3 GDN results show Scotland remains in first place and Southern has improved from seventh to third. For the first time, no complaints exceeded 31 days.

The PSR continues to grow strongly, with over 1.5 million households now registered. The business has significantly exceeded its original GD2 ambition and now enters GD3 with a much larger PSR cohort. Customer satisfaction among this group is high, with SGN top of the league table with a combined score across the two regions of 9.61.

We recognise the significant effort that has gone into delivering these results and have congratulated the team. We recognise that maintaining strong customer outcomes in GD3 will require continued close working between customer, operational and asset teams, particularly given wider pressures on cost and delivery.

Vulnerability (VCMI) - The Vulnerability and Carbon Monoxide Steering Group (VSG) continues to be valuable in helping SGN think through how best to make use of the UIOLI (use it or lose it) funding pot that Ofgem has made available for supporting vulnerable customers and raising awareness of carbon monoxide risks.

Communities across SGN's network have faced overlapping pressures, rising energy costs, a deepening cost-of-living crisis and, most recently, record levels of energy debt. In response SGN staff have continued to deliver not only essential services but life-changing support to those who need it most.

SGN have invested in the training and empowerment of frontline colleagues, meaning they can identify when someone needs assistance, and have the confidence to offer tailored support. Over the past year, these teams identified and offered help to nearly 19k vulnerable households.

SGN have also supported these customers through the Safe and Warm partnerships they have formed with 140 charities and community organisations, providing help with debt management, income benefits checks and applying for energy support schemes.

We are pleased that this focus has enabled SGN in 25/6 to help 600k vulnerable households keep a safe and warm home, bringing the total number of households helped in GD2 to 1.37 million. We see this as a really significant achievement, noting the depth of support provided.

We also welcome the wider leadership role that SGN has played in this area. Of the 41 collaborative GDN projects that SGN participate in, they lead 18, including those with Fuel Bank Foundation, Money Ready, Marie Curie, Scope and the Scouts.

While most of our discussions with SGN have focussed on vulnerability we also welcome the important role they play in alerting people to the dangers of carbon monoxide including their innovation work designing alarms that are clearer, more accessible and easier to act on than traditional sound-only alerts.

Environment

Environmental Action Plan – We note that SGN's performance against its Environmental Action Plan has fallen short in a number of areas (on EVs, building efficiency, waste). In most cases there are reasonable explanations and SGN continues to use its expert advisory panel to help in identifying opportunities for improvement. However, these are areas that needs a cross-organisation focus.

Carbon footprint – SGN fell short on its ambitious target for reducing its carbon footprint (excluding shrinkage) over GD2 with a reduction since 2019 of 21% compared to a target of 25%, in large part down to slow progress on fleet electrification (see below). During 25/6, their overall Scope 1 and Scope 2 emissions reduced by over 10%, driven largely by continued reductions in leakage.

Biodiversity - On biodiversity SGN had completed all the baseline surveys in 23/4 and are now delivering biodiversity improvement projects across their networks, with 37 carried out in 25/6. Each project is designed to strengthen local ecosystems and contribute to their biodiversity goals (of a 10% biodiversity net gain), making a positive contribution in this important area.

EV Fleet - The commercial fleet EV PCD remains at red status. SGN have been unable to secure vehicles that meet the requirements of their operational duties in terms of payload capacity, on-board power etc.

Leakage performance – Leakage has been a significant area of focus for us as an ISG. In developing the GD2 Plan, and again for GD3, we had heard a clear message from consumers and wider stakeholders that they see this as a priority because of the cost, safety, health and climate impacts, noting that it accounts for over 95% of SGN's Business Carbon Footprint (ie its total Scope 1 and 2 emissions). Given the global commitments on methane reduction – and the potential benefits in avoiding dangerous climate tipping points - we continue to see this as a priority.

Shrinkage volumes this year were close to forecast and since the 2019 baseline year shrinkage emissions have reduced by 19.3%. While much of this is driven by the repex programme, SGN have also put effort into, for example, pressure management which is an important driver (and determinant of the GD2 leakage incentive).

Advanced Leakage Detection - We have had a long standing interest in SGN's work on real time methane detection but were concerned through the GD3 process that SGN were being less ambitious than other GDNs – including on the frequency of surveys and in their approach to above ground installations where other GDNs are using fixed sensors. We highlighted these concerns in our comments to Ofgem on Draft Determination and are pleased that Ofgem has set clear expectations in this area.

With funding for Advanced Leakage Detection secured, and following successful trials, SGN has committed to survey the entire low and medium pressure network using vehicle-based methane detection within the first three years of GD3.

Joint work with other GDNs and external consultants is ongoing to establish clear safety and investigation thresholds, ensuring consistency across networks and proportional response. Engagement with the HSE has been positive, and updates to key policies and procedures are in hand to embed ALD into business-as-usual operations.

Detected leak rates and flow data will feed directly into SGN's pipeline risk assessment frameworks, enabling more precise targeting of interventions and improved prioritisation between repair and replacement. This data-led approach is seen as supporting a shift towards proactive, preventative asset management, with benefits across safety, environment and customer outcomes.

The ISG welcomes the progress that has been made with expected benefits in terms of safety, cost, efficiency, environment, and minimising disruption. The ISG will continue to follow progress in this area closely, including engaging on any reopeners.

Future Energy

Innovation

The ISG have been very supportive of a number of SGN's innovation projects and are keen to see these move through into implementation in GD3. Examples of key projects in which the ISG have taken a particular interest include:

- LTS Futures (successful completion) - demonstrating that the local transmission network is capable of safely transporting and distributing 100% hydrogen.
- Intelligent Gas Grids (nearing completion) - using AI driven pressure management to help manage leakage and biomethane injection
- Real-Time Settlement Methodology (RTSM) – An early stage NIA project to address the challenge of varying energy content across green gases and the impact this could have on future customer billing.
- Biomethane Islands – looking at the feasibility of isolating distinct areas of the Scotland network and supplying them wholly with biomethane in an end-to-end, sustainable system

We are aware that SGN did not secure all the innovation funding that they were looking for and that there has been a major restructuring in this part of the business. We are therefore keen to understand and test SGN's innovation strategy and priorities going forward.

Long term planning

The ISG had a session on SGN's Long Term Development Statement which emphasised the importance of peak demand (rather than annual demand) for network planning, SGN's modelling of consumer behaviour and that the model only included known legislative changes not policy ambitions. SGN had a good record of forecasting future demand. That said the ISG stressed the growing uncertainty around future demand and encouraged SGN to think about scenarios around its central projection given the policy direction. SGN

highlighted that alongside the general trend to electrification there were localised elements of increased demand for data centres, gas fired peaking plants and CNG filling stations which needed to be accommodated. The relationship between the LTDS and FES / RESP projections, which meet different needs, was a topic the ISG felt merited a wider airing.

Biomethane

Another area that we have been consistently supportive of is biomethane injection, as a route to heat decarbonisation that could deliver significant benefits in the near term and that is now increasingly also seen as supporting security of supply. The customer research for GD3 strongly supported this strand of SGN's work being seen as a no regrets way to reduce emissions without customers needing to make changes in their homes and also supporting a circular economy.

While ostensibly falling short of its ambitious target for GD2, SGN have done well in providing capacity for the equivalent of 360k homes[2], making it easier for producers to connect to their network and playing a leading role in the Green Gas Taskforce which is highlighting the many benefits of biomethane to policymakers and the public.

In addition to the number of connections, we have repeatedly encouraged SGN to look at what more it could do to avoid biomethane injection being constrained off at certain times of year. We are therefore pleased with the progress SGN has made on its PCD on biomethane improved access, covering reduced propane injection and smart pressure control projects to help reduce constraints on biomethane injection during the summer. This provides a template that can be rolled out more widely in GD3.

A major focus throughout 2025/26 has been the implementation of propane blending facilities at eight biomethane sites – three in Scotland and five in Southern. These projects utilise innovative blending technology to reduce the fossil fuel content associated with propane enrichment while simultaneously reducing operating costs for biomethane producers. In particular, SGN recently delivered further propane-reduction engineering at Girvan and is advocating for "blend from day one" at all new sites so propane displacement is designed in, rather than retrofitted The ISG have welcomed this strand of work, which represents a significant step forward in improving the environmental performance and financial viability of biomethane injection - and where SGN is leading the way, sharing learning with the other GDNs.

Aware of these challenges, the ISG has regularly stressed the importance of SGN using accurate terminology — talking about capacity connected rather than homes supplied — to avoid misleading impressions. We were therefore pleased to hear the biomethane team emphasising the importance of actual injection levels and the use of load monitoring to pick up on any issues.

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 by road tanker to Wick and Thurso SIUs, although an alternative option using Bio LNG is also now being explored. As an ISG we have been very supportive of this project and are pleased that Ofgem supported it in its Final Determination. We want to be kept updated on this project as it progresses and expect to be informed of any changes to scope. We have also highlighted the importance of local community engagement.

More generally on engagement the ISG noted a rising number of planning objections to rural AD facilities, with some projects stalled for over a year. The group encouraged SGN to adopt a more proactive communications stance, supporting developers going through planning and articulating societal benefits:

[2] Noting the figure would be higher if it took account of Ofgem's latest Typical Domestic Consumption Values

local jobs, waste-to-energy sustainability, circular-economy value, and reduced dependence on imported gas.

Hydrogen

Another area of interest for the ISG has been around hydrogen and the major projects that SGN is undertaking to help inform government policy on domestic heat decarbonisation and to support the development of hydrogen in line with the Government's Net Zero strategy.

While it is now looking unlikely that hydrogen will be supported by government as a domestic heat solution, we still see the learning from H100 as of real value.

We see hydrogen blending as being important element, not least with the potential for gas imports to include blended hydrogen – and will look to SGN to keep us updated on developments in this area.

Our reflections: GD3 Readiness

Final Determinations

While Ofgem had moved a considerable distance from its Draft Determination position it still had not provided the level of funding that SGN considered it needed. This was understandable in the context of pressure on customer bills but there were elements where SGN considered that there had been errors in Ofgem's Determination which it was appealing to the CMA. The CMA has now produced its interim findings that there were no errors.

We have discussed the implications of the reduced funding with SGN. It was emphasised that safety-critical work will continue regardless of funding constraints with a clear commitment that overall network risk at the end of GD3 should be no higher than at the start. Trade-offs are therefore focused on how risk is managed rather than whether safety standards are met. Examples were discussed where proactive remediation could reduce repeat interventions, customer disruption and emissions compared to reactive repair approaches – but would be more costly.

We were pleased to hear that while the CMA appeal was resource intensive, this was being managed by a ring-fenced team so as not to impact on delivery.

VCMA funding and VCMI governance

The headline increase in VCMA funding was welcomed, but SGN explained that spend in the final years of GD2 had been unusually high due to repurposing of FPNES underspends and that as a result, GD3 year-one funding represents a sharp reduction relative to recent levels, creating a challenging transition for delivery partners.

Given that demand for VCMA funding in GD3 already significantly exceeds available allowances, this has required difficult conversations with delivery partners, many of whom had scaled up activity during late GD2. The ISG noted that Ofgem's positioning of their decision as maintaining (total) spend across the two price controls had probably added to the confusion.

The ISG discussed the risk that unmanaged expectations could undermine trust with the voluntary and community sector. It was agreed that clear messaging on the transition profile and future funding constraints was essential.

The ISG also discussed Ofgem's proposals for enhanced national VCMI governance with an oversight committee including a representative from each ISG. The ISG highlighted the need for proportionality, transparency, and careful management of conflicts of interest, while recognising the value of national coordination. We reinforced these messages through our response to Ofgem's consultation on VCMI governance and in discussions with the other GDN ISG chairs. We are pleased that Lucy McTernan has agreed to take on this role for the SGN ISG.

Conclusion

2025/6 felt like a year in which SGN overcame the resource and supply chain challenges that had plagued it a few years previously and successfully delivered against all its key operational metrics and delivered a stand-out performance on customer satisfaction. We recognise that shareholders had to fund much of this additional investment given the GD2 settlement but see it as vital in terms of providing a sound base for moving forward on GD3.

Alongside the focus on these operational 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 have welcomed a strong commitment to reducing emissions through leakage and are pleased to see a stronger focus on advanced methane detection.

It was also another 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. We see SGN as playing a sector leading role in the deployment of VCMA funding.

Looking back over this the final year of GD2 we are pleased that as an ISG we have a growing influence and that our ability to bring an external perspective into key debates is valued. We believe strongly that having been on this journey with SGN in finalising their Plan for GD3 means we are well placed to help hold them to account for delivery of their Commitments – and to support them in so doing so.