



**SGN**

Your gas. Our network.

# SGN Customer and Stakeholder Engagement Group

Annual Report 21/22



November 2022

# SGN Customer and Stakeholder Engagement Group - Annual Report 21/22

## Executive Summary

We are very pleased that SGN chose to have an enduring Customer Engagement Group (CEG). Although it has taken some time to confirm the form that would take - which meant we played a more limited role through most of 21/22 - we are now established as an integrated Customer and Stakeholder Engagement Group and are starting to see SGN engaging more actively with us again. We particularly welcome their openness in their discussions with us and the commitment shown by John Morea (CEO until August 2022) in joining us at our meetings to provide a strategic view. From initial conversations we expect a similarly constructive relationship with Mark Wild (the new CEO).



**Maxine Frerk**  
Chair, Customer and Stakeholder  
Engagement Group

The original CEG was a large group (16 members) designed to allow us to form two sub-groups if SGN had decided to develop separate Business Plans for Scotland and the South. As they did not go down this path, we have agreed that a smaller group (8 members) is appropriate going forwards and a number of members have stood down following a change in roles or for other reasons. We have recently reviewed the membership of the Group to ensure we have the right mix of skills going forward.

During the course of 21/22 – the first year of GD2 – we met only three times for half day meetings. As a Group this has left us at times feeling somewhat removed from what is going on and struggling to keep up. However we hope that this will improve over time as we work with SGN to ensure they are making the most of the skills and experience of the Group. In particular we are keen to establish a clear forward agenda to ensure that we cover all relevant areas.

That said we appreciate the open conversations we have had in the last year around SGN's work on the role of hydrogen in the future energy system and its thinking around its strategy, vision and purpose. These are important issues that have been priorities for SGN over the past year.

On the engagement front we are pleased that SGN moved quickly to set up the two new advisory groups – on vulnerability and the environment – that were key commitments in their Business Plan. Members of the CSEG sit on these groups as (active) observers. We also welcome the very significant engagement that SGN has done around its H100 Fife project, making effective use of local grass roots organisations to help them in tailoring wider communications, for example.

In terms of operational delivery, we are aware that this has been a difficult year across the industry with the continuing impacts of Covid and global supply chains together with resourcing challenges in the south. This has left SGN under-delivering against its iron mains replacement and capex targets, as well as seeing delays in its H100 Fife hydrogen project. SGN have been open about these problems and talk in their annual Stakeholder Report about the challenges they have faced in delivery and the need to get back on track. We welcome this openness. Looking across the published end year reports for all GDNs it appears as if SGN have been more impacted than others but SGN do not believe this to be the case

and we are reliant on Ofgem to really look behind the numbers on relative performance. We will continue to challenge SGN to ensure that they are doing all they can to get back on track.

In terms of their progress on customer satisfaction and vulnerability we are pleased that Scotland remains the top GDN and that SGN remain committed to delivering at least 9/10 satisfaction scores in the south.

We have been very pleased with the partnership working that SGN have put in place on vulnerability and that they have led on 7 out of 9 of the cross GDN initiatives funded through the Ofgem use-it-or-lose it allowance. We have been fully briefed on the obvious challenges they have faced with their Fuel Poor Network Extension scheme targets with government funding for the in-home works on new gas central heating systems radically cut back.

We hope that SGN will be successful in persuading Ofgem to allow them to redirect resources to other ways of supporting low-income households, in particular given the current energy crisis. We would also encourage them to consider the scope for further shareholder contributions given these exceptional circumstances.

On the environment front the CEG has always taken a strong interest in leakage (given this accounts for 97% of SGN's carbon footprint). We noted the commitment from ministers at COP26 in Glasgow to sign up to the Methane Pledge but remain concerned that this has not had the attention from Ofgem which it merits. Without stronger incentives we are not entirely surprised that SGN's leakage reduction is below forecast and are due to have a deep dive on this issue at the next Environmental Advisory Panel meeting.

Through the first year of GD2, SGN has put a strong emphasis on looking at different accreditation schemes to give assurance to stakeholders around its ESG performance and it has now signed up to the World Economic Forum (WEF) Stakeholder Capitalism framework which we welcome. We note that SGN has not got a science based targeted accredited by the SBTi (which has been a requirement for ED2). We understand that this is because the SBTi has not yet confirmed its accreditation approach for gas distribution networks.



## Introducing the CSEG

While SGN was developing its GD2 Business Plan it had a relatively large Customer Engagement Group (CEG) which provided challenge to the company and assurance to Ofgem. It was recruited in line with Ofgem requirements (as set out in the **CEG report** on the GD2 Plan). SGN also had a separate Stakeholder Advisory Panel (SAP) consisting of experts in stakeholder engagement and fuel poverty who helped SGN with, for example, its Stakeholder Engagement Incentive submission.

In mid-2020 SGN started to think about the future of these two groups but agreed to keep both running until Ofgem clarified its expectations around any enduring CEG role.

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.

In the light of the Ofgem letter, SGN took the decision in January 2022 to combine the CEG and the SAP and asked Maxine Frerk (the original CEG chair) to chair the new Customer and Stakeholder Engagement Group. The CSEG had its inaugural meeting in March 2022. The Terms of Reference for the Group reflect the Ofgem guidance.

Although the CEG had originally been a large group (reflecting SGN’s desire to be able to have separate groups for Scotland and the South) it had lost a number of members as they changed role, for example. A full review of the membership of the new combined group was planned for later in 2022 (now completed).

Over the past year (21/22) the members of the CEG/CSEG were:

**Maxine Frerk**  
(Chair)

**Lucy McTernan**  
(Deputy Chair Scotland)

**Claire Whyley**  
(Deputy Chair South)

**Syed Ahmed**

**Joel Atherton**  
(until October 2021)

**Eddie Lafferty**

**Ian McCluskey**  
(until February 2022)

**Rosie McGlynn**

**Matt Copeland NEA**  
(SAP - joined CSEG Jan 2022)

**Matthew Pencharz**  
(SAP - joined CSEG Jan 2022)

**Christine Tate**  
(SAP - joined CSEG Jan 2022)

## Our engagement in 21/22

During 21/22 we held three half day meetings which covered a wide range of topics agreed through discussion between SGN and the CEG / CSEG chair.

### 15 June 21

- Hydrogen consumer challenges
- Scenarios for decarbonisation
- GD2 Plan commitments (esp environment and vulnerable)

### 1 November 21

- Update on CMA
- Political update
- Strategic challenge with FPNES target
- Update from advisory groups (Vulnerability / environment)
- AOB - leakage press reports ~ Glasgow COP26

### 7 March 22

- CSEG terms of reference
- SGN Purpose, Vision and Values
- H100 Fife community engagement
- Ofgem update

Reflecting on these agendas we would be keen to work with SGN to develop a forward agenda for the year ahead to ensure a slightly broader balance of topics gets covered in future.

# Our reflections

## SGN's approach to engagement

One of the key commitments around engagement in the SGN Plan was the creation of two new advisory groups on vulnerability and on the environment. We are really pleased that SGN moved very quickly to put these in place with 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. A member of the CEG was nominated to join each group as an (active) observer to help ensure the work of these different groups was informed by the previous engagement on the Business Plan and to help the CEG in its role of monitoring performance. These groups reviewed and provided views on the SGN **Vulnerability and Carbon Monoxide Report** and the **Annual Environmental Report** respectively (see below).

In its Business Plan SGN also committed to strengthen its engagement with key groups where the CEG had noted that it would have liked to see it do more. These included young people and we are pleased that SGN established a Future Thinkers panel of 14-16 year olds (although we did not have a chance to look at how that operated). Engagement with larger industrial customers has also increased, primarily through SGN's unregulated business and through its work on hydrogen. We hope that as it builds up its engagement for GD3 SGN will take note of our previous advice to broaden their engagement with business customers.

We have had in depth presentations around the engagement work that SGN has done on hydrogen and H100 Fife. We have been impressed by the quality of the engagement on H100 Fife and the way that SGN has used grass roots community organisations as a conduit for messaging and to help in crafting direct consumer communications.

We have also had the opportunity to explore with SGN its handling of wider political stakeholders. Again, SGN are putting considerable focus on this, in particular in Scotland where the earlier net zero target is driving a stronger focus on heat decarbonisation. We hope that the discussion we had around SGN's approach in this area will have been helpful to them.

We have been pleased with the way SGN are engaging with local authorities, in particular in Scotland. We hope that going forward more can be done to engage jointly with DNOs to help develop whole system energy plans.

While we recognise the Scotland context makes this engagement easier, we would like to see SGN learning from its experience there and building stronger political and local authority links in the South as GD2 progresses. The move to more online or hybrid events - which SGN have managed successfully - could help with this.

Finally, as part of the work that SGN took us through on their purpose, vision and values we were pleased to see the extensive staff engagement that they had undertaken and felt that they were genuinely listening to these key internal stakeholders. We expressed interest in how this work would be positioned externally and noted the importance of a consistent framing and language across the different reports and materials that SGN put out.

We are aware that we have not had the opportunity over the course of 21/22 to look in more depth at SGN's BAU consumer and stakeholder engagement including the engagement that it does for example around major works (which had historically been a strength). SGN have however provided us with a report summarising this engagement to help us as we prepare this report.

We hope that going forward we will have more opportunities to review SGN's BAU engagement and to observe some of the engagement as we did during the development of the Business Plan. We are particularly keen to see how engagement has informed their thinking or approach on the ground.

In its Business Plan SGN committed to engage further on what it saw as 10 priority challenges. It confirmed at the start of the year that it still intended to focus on these areas although resource constraints meant the process could not be as in depth as originally proposed. We would encourage SGN to use these 10 challenge areas as a checklist to ensure that it is engaging across the full range of issues.

## SGN's strategy refresh

During 21/22 SGN undertook a major review of its strategy and also its purpose, vision, and values. It also created a new Stakeholder, Environment and Customer Committee<sup>1</sup> at Board level which then oversaw the work on SGN's choice of sustainability frameworks (and its decision ultimately to sign up to the World Economic Forum Stakeholder Capitalism Metrics). We were given very open and helpful briefings on this work.

The original expectation was that the CEG / CSEG chair would have opportunities to talk to the new Board Committee whose remit also covered engagement. That has not yet happened but the CEG / CSEG chair has had several informal conversations with Laura Sandys (the NED who chairs that Committee) which have been very helpful. However, the CSEG remains keen for the chair to have opportunities to engage formally as well.

We are also aware that during the course of the year SGN had a major change of ownership with two of its original shareholders (SSE and Omers) selling their stakes. They now have two new shareholders Brookfield Super-Core Infrastructure Partners and Global Infrastructure Partners, with existing SGN shareholder Ontario Teachers Pension Plan increasing its stake.

While we understand and support the need for SGN's strategic review, we have a question in our minds as to whether this (together with the change in ownership and other factors) meant that SGN did not necessarily hit the ground running at the start of GD2. However, we hope that this strong strategic underpinning will provide a good basis on which to catch up through GD2.

We are also aware that Mark Wild has now taken over from John Morea as CEO. We are grateful to John Morea for his support for the CEG and the time that he has given us. We look forward to working with Mark Wild in his new role.

## Continued focus on hydrogen

**Another strong area of focus for the CEG / CSEG 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. As noted above this has been the focus of much of SGN's engagement activity in the past year.**

We have been pleased to hear about how the GDNs are working together and sharing learning in this area (as is expected under the terms of the innovation funding they receive).

We were also very pleased to see the Scottish Independent Undertakings (SIUs) being used as potential testbeds for locally produced biomethane or hydrogen. This was something that we had pressed SGN hard to look at during the development of the Business Plan, providing both an interesting standalone network opportunity but also helping reduce costs as gas would no longer need to be shipped by tanker from overseas and then by road across GB.

We have been interested in the extent to which some of SGN's hydrogen activity is taking place in their unregulated business, in particular where they are looking to serve major businesses or where hydrogen production is involved. Although the CEG was established to focus on the regulated business we do consider that it is important context for us to understand these key developments in the unregulated business, including being clear on the governance implications.

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<sup>1</sup> Now repositioned as the Stakeholder and ESG Committee

## Operational delivery

Over the course of the year the CEG / CSEG had relatively limited opportunities to talk about operational delivery. However, we did have a session after the year end once performance data was available where SGN talked us through the key metrics. The Environmental Advisory Panel had also been tracking performance on some of the key Annual Environment Plan (AEP) metrics. The CSEG have subsequently reviewed the **Annual Report and Accounts** and the **Stakeholder Report** published alongside the **regulatory report** submitted to Ofgem which helped inform the CSEG only session where the key messages in this report were developed.

While our Terms of Reference refer to holding SGN to account for delivery on commitments not covered by the Ofgem RIGs<sup>2</sup> 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.

At the start of the year, we had tried to ensure we were clear where there were additional commitments in the Business Plan beyond those that Ofgem were tracking. This was a difficult exercise as the significant cuts that Ofgem had made to GDNs' baseline revenues meant that SGN could claim in a number of areas that Ofgem had effectively disallowed funding for these commitments (by setting revenues based on its view of "efficient" spend which did not allow for the improvements SGN had hoped to put in place eg on stakeholder engagement discussed above). Apart from on engagement, it is not clear that there are any specific commitments that Ofgem are not expecting SGN to report against through their regulatory reporting. We have therefore focussed below on the elements that are part of the regulatory package but where we had taken a particular interest in the development of the Plans and hence are keen to see how SGN are performing.

**Customer Satisfaction (CSAT)** – We were pleased to see that in Scotland SGN had the highest CSAT scores across all GDNs and that they had met their commitment to achieve 9/10 in the South. With the challenges of Covid and ever rising customer expectations this is a positive result, reflecting SGN's commitment to trying to understand what matters to customers. In our report on the Business Plan we encouraged SGN to keep pushing harder in the South (as the disparity was a concern for customers). This is an area we will want to continue to watch.

**Fuel Poor connections** – We were aware through the development of the Business Plan that SGN had set itself a very demanding target on Fuel Poor Network Extensions which we had welcomed, while also noting that this willingness to be ambitious was underpinned by a commitment by Ofgem not to penalise underperformance in this area but to have a volume driver that would take account of what could be delivered in practice.

We understand that with the government no longer funding the in-home works (ie new gas boilers) it is inevitable that SGN have only been able to deliver 39% of their original targeted level of fuel poor connections in 21/22 and have scaled back their targets accordingly for the rest of GD2. Given that this was a key element of SGN's support for vulnerable customers in their Business Plan, we hope that Ofgem will find ways to allow this expenditure to be redirected to other forms of help with reducing heating costs for vulnerable households, in particular given the current energy crisis.

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<sup>2</sup> Regulatory reporting instructions

### **Vulnerability UIOLI - Vulnerability UIOLI -**

The Vulnerability and Carbon Monoxide Steering Group (VSG) has been very 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. Their 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 evidence to identify the areas of greatest need.

*“The VSG provide oversight, guidance and governance on the analysis, options and decisions taken by SGN, ensuring best value and SROI on the VCMA allowance. One of our guiding principles has been determining the ‘best fit’ partners to work with us to support the customer groups who we have identified as at the greatest risk to using energy safely, efficiently and affordably”*

Christine Tate, Chair Vulnerability and Carbon Monoxide Steering Group

In its Business Plan SGN committed to help 250k vulnerable customers to use energy safely, efficiently, and affordably over the course of the five-year price control period. We are pleased they have exceeded their year one target, supporting over 52k households. The unprecedented increase in energy prices has had a catastrophic impact on many vulnerable households. SGN have helped support these customers through the partnerships they have formed, aiming to deliver the highest social return on investment (SROI). Since the start of RIIO-GD2 they have commenced 19 regional VCMA projects working with 28 partner organisations.

We are pleased that SGN has played a sector leading role in this area having led the thinking on 7 out of 9 of the cross GDN schemes.

**Repex** - We note that SGN has underperformed against its targets for iron mains replacement (repex) in 21/22 with an underspend of 19%. As a CEG we had actually pressed SGN to include an accelerated repex programme in its Business Plan (for environmental reasons and to avoid a cliff edge in 2030 at the end of the HSE obligation) but Ofgem had turned this down given uncertainties around the future of gas (and hoping it would be able to get the HSE to review the requirement). Given this history we were disappointed with SGN's underperformance. SGN have cited a number of factors as being responsible including Covid, global supply chain issues, changing shift pattern requirements and, particularly, resourcing problems in the South. We welcome SGN's openness about the problems they have encountered and are unclear from the published reports whether other GDNs have been impacted to the same extent. We rely on Ofgem to probe SGN on their relative performance. SGN have indicated that they expect to be able to catch up over GD2 and we will look to track performance in this area more closely going forward.

**Connections** - We note that SGN has delivered well below its expected level of connections for 21/22. As a CEG we had felt the connections forecasts in the Plan were too high as SGN was not taking adequate account of the impact of alternative forms of heat (district heating or heat pumps) and evolving government policy. Economic factors and Covid have also suppressed demand. However, the volume driver that Ofgem introduced in this area means that customers will not lose out as a result of this shortfall.



**Leakage** – Leakage had been a significant area of focus for the CEG 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 it accounts for 97% of SGN’s carbon footprint. We had therefore advocated an accelerated repex programme which Ofgem rejected (as noted above) and had expressed concerns about the narrowing of the financial incentive to tackle leakage. We pressed SGN to look at how innovation could help in this area and were pleased that Ofgem did allow funding for these schemes which we are glad that SGN are progressing<sup>3</sup>.

As a CEG we discussed the issue again at the time of COP26 given the government signing of the Methane Pledge and also the media publicity about a gas leak in Glasgow. We confirmed with SGN that under GD2 there was no longer any financial incentive for them to accelerate tackling the Glasgow gas leak (which was not an immediate safety issue). While we had hoped that the COP focus on methane might lead to greater Ofgem attention being paid to the issue, this does not appear to be the case.

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 new incentive as the underperformance on repex is not taken into account. We have also been told that the rebound in demand post Covid made it harder for SGN to maintain lower pressures which meant that leakage was higher than it otherwise would have been. Overall, their shrinkage and leakage fell by 2.6% but was 0.4% above forecast. We will be carrying out a deep dive on SGN’s performance in this area with the Environmental Advisory Panel but do not have the technical skills or resources to really challenge SGN’s performance. We therefore very much hope that Ofgem will give this the necessary focus in its own review of cross GDN performance.

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<sup>3</sup> For example, SGN have invested in stent bags which allow gas to be captured in the event of a significant leak and are on track with their remote pressure management project. They also have an innovation project aimed at improving the shrinkage and leakage model.

<sup>4</sup> 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.

**Biomethane** – Another area that we had pressed SGN to be more ambitious on in their Business Plan was biomethane injection (as another route to heat decarbonisation at least in the short to medium term). We are pleased to see the prominence given in their Stakeholder Report to their ambition for an equivalent of 450k homes to be served with biomethane. We were aware that SGN’s performance in this area was going to be heavily dependent on government policy but with the introduction of the Green Gas Support Scheme, SGN have seen a welcome increase in connection applications in 21/22 which should be reflected in higher volumes of gas being injected later in GD3.

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 when demand is low (eg in summer). On that basis we are pleased that the PCD on biomethane improved access<sup>4</sup> (which we had strongly supported) is on track. This is an area we would be keen to revisit with SGN in the coming year, including exploring customer feedback on their performance.

**Environmental Action Plan** – Drawing on the expertise of its Environmental Advisory Panel, SGN has put a welcome emphasis on quantifying its Scope 3 emissions, on waste management and biodiversity. These were not areas that the CEG focussed on particularly in the development of the 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 which all GDNs have experienced.

*“The purpose of the Panel is to provide appropriate challenge and be a critical friend when reviewing SGN’s environmental plans and projects which are intended to progress SGN towards its targets, ensuring their relevance to stakeholders, communities and SGN’s overall strategy. Since appointment of the Panel, we have had five meetings. These have considered a range of topics, including biodiversity, circular economy, procurement and supply chain, and employee engagement. We have scrutinised SGN’s KPIs and how these track progress against overall environmental targets and commitments. SGN has been open and receptive to learn from the Panel”.*  
Kathryn Dapré Chair Environmental Advisory Panel

**Diversity / recruitment** – One final 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. We had welcomed SGN’s commitment to, for example, the 10K Black Interns scheme, but encouraged it to do more. From the discussions we had this year around the SGN strategy and its staff engagement it is clear that it is now looking more widely at this issue. Given the challenges it has faced with resourcing in the South, these efforts to attract applicants from a more diverse pool, and to use local stakeholder expertise in thinking how best to do this – needs to be a clear priority.

## Conclusion

**2021/22 was a difficult year for SGN and across a number of sectors. However, it is becoming increasingly clear that these challenges are not going to go away and, indeed, in some cases are only increasing. SGN faces resource and supply chain challenges in delivering its core responsibility to maintain a secure and safe gas supply. It also faces increasing demands for support to its most vulnerable customers who are struggling to afford to heat their homes.**

We have counselled SGN on the stresses this can create for their own workforce who we have heard previously find it hard to walk away from such situations. We hope that through the frameworks already in place and potentially through further shareholder contributions, SGN can play its part in helping ease the pressures on customers during the current crisis.

At the same time SGN needs to maintain its focus on helping tackle the global challenge of climate change. Perhaps inevitably we have seen a clear and continuing focus on enabling hydrogen to be a part of that solution. We welcome the energy and innovative spirit that SGN put into this. However, we have cautioned against over-selling the role that hydrogen is likely to play in domestic heat decarbonisation as local authorities grapple with what approach they should take. We would like to see a clearer delineation of those regions where hydrogen remains a real contender (eg because they are close to industrial clusters) and where realistically it is unlikely and more thought needs to be put into moving ahead with other solutions and working out how ultimately one might exit from gas. We see this as a key issue as we look ahead to

GD3. We would also like to see an equal focus on what can be done to reduce 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). We will therefore continue to press SGN to do all it can to minimise leakage.

Looking back over the first year of GD2 it is clear that there are important areas that the CSEG has not had the chance to discuss and where we have flagged in this report that we will want to take a closer interest going forwards. We hope that this will form the basis for a forward agenda to ensure that we have visibility of the key issues of concern for consumers and stakeholders and a regular schedule of meetings ahead of the work beginning in earnest on GD3.

