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On behalf of the SGN Customer and  
Stakeholder Engagement Group.

Mr. Neil Gray MSP,  
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Dear Mr. Gray,

Thank you for the opportunity to respond to the consultation on the draft Scottish Energy Strategy and Just Transition Plan (ESJTP). This response is on behalf of the SGN Customer and Stakeholder Engagement Group (CSEG)<sup>1</sup>. The CSEG has been set up as an independent group to challenge SGN as they shape and deliver their business plans for the Scottish and south of England gas distribution networks. The CSEG consists of eight members with expertise spanning network regulation, customer engagement and support, supporting vulnerable and fuel poor consumers, community engagement, innovation, and policy development.

Through its work the CSEG is in the privileged position of exploring in detail the role that SGN plays in delivering value to energy consumers, to the wider energy system, and to Scotland as a whole. We are currently involved in holding SGN to account for delivery of the RIIO-GD2 business plan, which runs from 2021 to 2026, and in offering advice to support the development of GD3 which will follow on. We do this to ensure that SGN reflects the interests of gas network customers and wider stakeholders.

This response does not include answers to the specific consultation questions, instead it provides some high-level points which reflect our experience and knowledge. In addition to this response, we feel there would be value in meeting with the Scottish Government Energy Strategy and Just Transition Teams to discuss the decarbonisation of heat and the potential future of the gas network in more detail.

### **Whole Energy System and Just Transition**

We welcome the ESJTP's whole system focus and agree that it is critical that government policy should develop in a joined up way across all aspects of energy. It also needs to consider the wider societal implications of decisions made about energy and in doing so ensure clear and consistent links to social and economic policy. However, whilst the ESJTP represents a clear whole system aspiration, we are concerned that it lacks the detail needed to coordinate the process of change, particularly given the pace of decarbonisation required by Scotland's targets. Scottish Government should consider how best to develop a more detailed whole-system delivery plan.

The focus on delivering a Just Transition is welcome and needs to be at the heart of energy reform. Our work involves considering the implications of different futures for the gas networks on gas consumers and on wider stakeholders. Through this work we see the importance of paying particular attention to the impact on customers in vulnerable circumstances and in fuel poverty. The ESJTP draws together the many ambitious targets which structure Scottish Government's approach to energy policy, it is important that Scottish Government considers the impact of these targets on different groups in society including groups with a range of vulnerabilities.

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<sup>1</sup> <https://www.sgn.co.uk/about-us/our-stakeholders/customer-and-stakeholder-engagement-group>

## Decarbonising heat

Decarbonising heat represents one of the biggest challenges within the energy transition and it is one for which there are no easy pathways.

Electrification and the use of heat pumps is an efficient way to use energy and is suitable for well insulated buildings. However, it involves significant upfront costs which are unaffordable to many, will deliver limited savings to consumers (if any) on running costs compared to natural gas, and is less suitable for poorly insulated buildings typical of much of Scotland's current housing stock. The alternative option of using hydrogen for heat may be a more suitable option in some areas and has the potential to provide greater flexibility to the wider energy system through the storage of hydrogen. But the downsides include significantly lower overall efficiency and, as the ESJTP acknowledges, a hydrogen pathway is likely to be too slow to deliver significant change by 2030.

It is to be expected that, if we are to succeed, we are likely to need a mixture of options across the country. However, it is challenging to see how Scottish Government's aspiration to decarbonise the heat supply for at least 1 million homes and the equivalent non-domestic demand by 2030 can be delivered by any combination. Scottish Government need to consider carefully whether the current target is credible and useful in the context of both the longer-term transition to net zero and the implications for different groups of energy consumers.

One intervention that is clearly to the benefit of everyone is the efficient take up of energy efficiency measures across all buildings. We are pleased to see that through the 2022 Heat in Building Strategy, and the ESJTP, there is a focus on energy efficiency alongside heat decarbonisation. However, as with other aspects of the transition, there is a need for more funding, greater coordination, and more leadership on strategy and delivery.

## The role of gas networks

Gas networks play a major role in Scotland's energy system today, both in terms of the energy delivered and emissions released. Gas networks currently deliver around a third of Scotland's end-use energy demand. The use of that gas leads to the emission of 8.6 MT CO<sub>2</sub> per year. Mains gas remains the cheapest form of heating available, and SGN's gas distribution network currently links directly into 86% of Scottish homes<sup>2</sup>.

Given the centrality of the gas networks to today's system and to the way the majority of people use energy, Scottish Government needs to consider, in detail, the implications on those networks of all options for decarbonising heat and the cascading impact on consumers. These considerations should include:

- **The direct impact on existing gas network customers, including groups in vulnerable situations, of having to move from natural gas to a low carbon alternative.** Any pathway will involve significant direct impact on customers through the need to change their heating system, and improve the energy efficiency of their homes or business premises. Over the past decade SGN and other Gas Distribution Networks (GDNs) have developed significant experience of engaging and working with consumers to understand their needs and concerns. As an example, experience emerging from SGN's H100 project is providing valuable learning.<sup>3</sup> The project, based in Buckhaven and Denbeath in Fife, aims to demonstrate the delivery of green hydrogen to domestic consumers, however the learning from the project is much wider. The CSEG has seen the significant effort that SGN has put into working with the local community to understand their views and build support for the project. Similar approaches will be needed to successfully transition communities to any new low carbon heat supply.

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<sup>2</sup> Numbers derived from the [Scottish Energy Statistics Hub](#)

<sup>3</sup> <https://www.sgn.co.uk/H100Fife>

- **Financing the ongoing cost of the gas network throughout the transition.** The ESJTP lays out Scottish Government's expectation that hydrogen will not play a major role in decarbonising domestic heat, the implication being that electrification, including through heat networks, will need to deliver the majority of the decarbonisation required by 2030. Doing so would approximately halve the number of customers connected to the gas network in Scotland. However, it is unlikely to significantly reduce the costs of owning and operating the network. In addition, the cost of decommissioning parts of the gas network could add an additional burden. Under current regulatory models, this could see an increase in costs passed onto the remaining gas network customers. Scottish Government need to carefully consider the implications for all and in particular the impact on those in fuel poverty. Whilst there are alternative ways in which gas networks could be funded through the transition, there is a risk that by moving faster than other parts of GB, Scottish consumers suffer because this issue and the potential for changes to networks' funding framework, have yet to be discussed and agreed at a national level.
- **GDNs, along with their counterparts in the electricity sector, already play a significant role in supporting vulnerable consumers,** for example through the maintenance of a shared Priority Service Register and by providing funding to advice agencies. The Scottish Government should consider how regulated network companies in both the gas and electricity sectors can best use their skills and expertise to support energy users throughout the transition.

### **The importance of leadership**

The strategic leadership that the Scottish Government has provided through publication of the ESJTP is to be applauded, as is the funding being used to deliver schemes such as the Scottish Heat Network Fund, Home Energy Scotland, and Warmer Homes Scotland. However, there remains a significant gap in both the strategic and delivery-focused whole system leadership across Scotland.

At a strategic level, the approach outlined in the ESJTP needs to be developed in substantially greater detail and it needs to take realistic consideration of the risks associated with delivering the scale and pace of change envisaged. For example, whilst the ESJTP highlights the importance that Scottish Government places on the development of a hydrogen economy and recommits to the ambition of at least 5 GW of hydrogen production capacity by 2030, there is an urgent need for a more detailed vision of how a hydrogen system and the associated markets will develop. Given the timescales involved, there is a need for clarity on which sectors of the energy system Scottish Government expects to be most likely to convert to hydrogen over what timescales and the scale of energy demand that might be met at key points.

Leadership is also required at a tactical and delivery level. This is particularly relevant to heat decarbonisation. Local Heat and Energy Efficiency Strategies (LHEES) can provide useful place-based strategies, but there will be a need for significant resource to turn those strategies into delivery plans. Scotland's new energy agency, Heat and Energy Efficiency Scotland, provides a potential locus for national delivery-focused leadership. We hope that the final ESJTP can provide more detail on the remit of this body and how it intends to work with local authorities, network companies, and other local and regional stakeholders.

Alongside plans for delivery, there is a growing need for support and advice. As the transition progresses the direct impact on people's lives will increase. Plans should ensure a joined-up approach to supporting those who are struggling. For example, direct support for those in fuel poverty, the upscaling of energy advice, and the delivery of effective improvements in energy efficiency need to be coordinated and led at both a national and local level.

## **Working with Ofgem and UK Government**

We recognise the difficulty of delivering devolved policy ambitions in a largely reserved sector. Given the points made above about the importance of the gas network today and throughout the transition, it is imperative that Scottish Government work proactively with UK Government and Ofgem in order to ensure that good decisions are made about GB-wide assets such as the gas network. This will include ensuring that there is strong evidence to support Scottish targets and pathways, evidence that can support good regulatory decision making and therefore ensure the needs of network customers are met in a cost-effective way.

## **Engagement between the gas network industry and Scottish Government**

We understand that the Scottish Government engages regularly with SGN on a range of issues. It is important that this relationship continues and deepens. The uncertainty around GB-wide decisions affecting heat decarbonisation and the future of the gas networks mean that it is important that Scottish Government and SGN maintain an open and mutually supportive dialogue.

We also believe the role that the CSEG plays in understanding the issues associated with gas networks and challenging SGN to do better means we are well placed to provide useful whole-system insight from a customer and stakeholder perspective. Reflecting this, we attach a recent article summarising a panel discussion we held, and which expands on the points raised in this response. We would welcome the opportunity to discuss the future of Scotland's energy system with your team and explore the points raised in this letter. If that is of value to your team, please contact me or Maxine Frerk (cc details below) directly.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'S. Gill', with a long horizontal line underneath it.

Dr. Simon Gill, on behalf of the SGN Customer and Stakeholder Engagement Group.

CC: Maxine Frerk , Chair of the SGN CSEG, [Maxine.frerk@gridedgepolicy.com](mailto:Maxine.frerk@gridedgepolicy.com)

## **Annex**

### ***SGN's Customer and Stakeholder Engagement Group – our invitation to dialogue on key issues for the energy sector***

#### **Context**

The SGN Customer and Stakeholder Engagement Group was established in 2022 to advise and challenge the gas distribution company SGN as it develops its business plan for the next five years (sometimes called GD3). It was an evolution of the foregoing Customer Engagement Group required by the regulator for the last round of business planning and longer history of stakeholder engagement by the company. As such the group is very experienced, and SGN has come to value its role as critical friend and constructive challenger. Previously the group was very focused on the views and experience of the end customer – individuals and households and their experience of e.g. billing and service. As time has gone on and engagements with stakeholders deepened it has become apparent that customer and stakeholder interests are wider and more nuanced than this and research during GD2 told us that environmental issues were as important to them as affordability, and strategic and 'policy' issues as relevant as customer service scores. This has led the group in the early, information-gathering, stages of its role in relation to GD3 to seek out a range of expert voices, and attempt to frame our discussions and concerns in this broader and more future facing context. This short paper has been produced, following a panel session in Edinburgh in April 2023 to which experts in the wider energy industry, regulation and fuel poverty all contributed, to indicate the kinds of themes and issues that are emerging for us. It stands as an open invitation to dialogue to others.

#### **Need for strategic conversation**

Our recent session revealed to the SGN CSEG that our desire for strategic engagement on energy policy, the operational implications of pending choices, and the impact on communities, was shared by others in the industry and beyond, but currently unfocused. There appears to be an absence of leadership on this crucial agenda, at both Scottish and UK level. We debated whether the various industry bodies – gas distribution networks (GDNs) and their electricity counterparts could do more to lead this debate, and there was consensus that they could do more, but that, ultimately, they were not best placed to fill this policy 'vacuum'.

Rather, what is required is the orchestration of a collective effort involving all actors and wider consumer interests. The Just Transition Commission work in Scotland was thought to be one helpful dynamic, but other opportunities for a solutions-focused conversation with the right people in the room was needed. While not all of direct concern to GDNs – rather of contextual relevance to our core role advising SGN - our (initial) themes for such a conversation are as follows:

#### **Recognising the reality of poverty**

The industry and all involved need to properly recognise the extent of the hardship being experienced right across the community as a result of price increases. Energy and benefits/rights advisers on the frontline are seeing some of the worst and most widespread privation in living memory – it can be too easy to lose sight of this reality. All actors – networks, retailers, governments at all levels and the regulator need to share responsibility for an active and urgent response. It is clear that advocates for consumer interests have a critical role – recent decisions by OFGEM to e.g. restrict energy companies use of pre-payment meters is a good example where essential change has been wrought.

## **Upscale energy advice**

While we know there has been a massive uptick in the number of energy advisors being deployed by the key third sector networks in recent months, it is still not enough to meet the challenge of the current cost of living crisis and the net zero demands of the near future. In the foreseeable future householders are going to be faced with potentially confusing options and the potential for disorganised and sub-optimal outcomes for individuals, neighbourhoods and whole communities is significant if better (organised) information is not developed. Our group has discussed how 'real' choice is for many customers, when faced with such complex scenarios, and whether a greater sense of ownership around planning isn't a preferable form of empowerment in this situation. In any case a strategic joining-up and modernising of energy advice provision is required – the use of the funds in GDNs' business plans allowed by the regulator for work on vulnerability (the VCMA) should be deployed to this end: a step-change using funds repurposed from the fuel poor network extension scheme (FPNES) is an imminent possibility.

## **Energy Efficiency Measures**

Relatedly – it is clear to us that a new push on rolling out energy efficiency measures is required. Current government initiatives are underpowered, and a collective effort to make sure these reach homes across the community is required. It has been unclear in the past what the energy network companies' role is in this, with little, or perhaps a discouraging steer from the regulator. However, they are very well placed to contribute significantly and leadership in stepping up to this challenge is encouraged, along with a plea to government(s) and OFGEM to explicitly enable it.

## **Open data and data sharing**

As in many areas of life better use of data is a key opportunity for our energy future. We are encouraged by SGN's strategic commitment to openness and efforts towards open data (such as the digital twin innovation project). Yet much more could be done in this regard with a wider range of partners to join up what we know about communities, their needs, the state of the housing they live in and the infrastructure that supports their neighbourhoods. Planning and resilience partners and – critically – the communities themselves should be enabled to use open and accessible data to develop tailored and appropriate solutions.

## **Workforce planning and skills**

It has become evident that workforce planning for the energy industry is a key theme, in terms of the skills that will be necessary for the future for a more complex system and to create a more diverse and sustainable employee group more fully reflecting the communities they serve. The transition from 'old' technology to new has the potential to disenfranchise people, disrupt careers and cause unemployment, so reskilling efforts, working with educational institutions to build new career paths will be essential to prevent the loss of experience to the industry and create opportunities for new entrants. Customers and stakeholders have an interest in this agenda not just because they have an interest in safe and stable energy, but because they or their family members could be impacted – positively or negatively - by employment shifts. The CSEG has taken a particular interest in how SGN's work on hydrogen can benefit the communities in which trials are being developed – encouraging wider community ownership and benefit.

## **Just Transition**

Encompassing employment transitions, and wider issues of equity, Scotland has made "just transition" visible and central to its future energy strategy; addressing directly some fundamental questions about what "just"

means in this context. Although achieving net zero should benefit everyone in the round, the transition will see relative winners and relative losers. How do we judge what is fair in terms of those relative gains and losses and what if any interventions need to happen to achieve equity? A small example of this, relevant to SGN, is how it deploys resources in Scotland and the South to secure good outcomes for customers in both regions. Does it treat the citizens of both England and Scotland strictly equally or does it account somehow for the differing ambitions and policies of the two jurisdictions?

It should be noted that Scotland and England have different targets for achieving net zero, with Scotland legally committed to a faster pace (2045 rather than 2050) and an interim target by 2030 of a 75% reduction in GHG emissions compared to 1990 (also a statutory, legally binding target). This exceptionally tight target is what is driving the short to medium term heat decarbonisation ambition of 1 million homes by 2030. For SGN – with operations in both Scotland and the south of England - these differentiated legal and policy environments provide an interesting strategic challenge. The CSEG would like to see a greater appreciation by OFGEM of these different drivers.

### **Whole systems and collaboration**

Above all our conversations to date have led us to the conclusion that customer and stakeholder interests are best served – in both the short and long term – by the different actors in the system collaborating much more and sharing a whole system perspective. The role of local authorities in planning and in supporting their communities we feel has become overlooked and should be brought back into focus; Local Heat and Energy Efficiency Strategies (LHEES) to be led by LAs in Scotland have real potential. We have been particularly concerned about the (cost) implications for those remaining on the gas grid of some apparently one-dimensional approaches to heat decarbonisation, and the potential for stranding assets in which the public has heavily invested. Breaking out of pre-existing silos of thought, policy and operation is going to be essential to building a future with good and just outcomes for all. We encourage organisations and institutions to consciously break with behaviours of the past and seek new partnerships and ways of working. It is with this in mind that this group – with our own particular role – is publishing this short note in the hope that it can in some small way stimulate other opportunities for discussion and sharing.

For information on the CSEG and to follow up the conversation, see: <https://www.sgn.co.uk/about-us/our-stakeholders/customer-and-stakeholder-engagement-group>