

SGN

Workforce and Supply Chain Resilience Strategy

December 2024



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Glossary

Term	Definition
AI	Artificial Intelligence
APM	Association for Project Managers
BCM	Business Continuity Management
E&I	Electrical and Instrumental
EDI	Equality, Inclusion and Diversity
ESG	Environmental, Social, and Governance
HSE	Health and Safety Executive
HSWA	Health and Safety at Work etc. Act 1974
IoT	Internet of Things
KPI	Key Performance Indicator
LMS	Learning Management System
MFP	Multi-factor Productivity
NEC	New Engineering Contract
NIESR	National Institute for Economic and Social Research
PE	Polyethylene
PPE	Personal Protective Equipment
TPRM	Third-Party Risk Management

Workforce and Supply Chain Resilience Strategy

Section A Executive Summary

- 1 This document sets out our strategy to develop the skills of our workforce and maintain an innovative and forward-thinking supply chain network in order to facilitate the delivery of our RIIO-GD3 (referred to as GD3 throughout this submission) plans. At SGN we recognise that our people are our greatest asset and as a major employer within both our regions that provides a critical service to society, we must ensure that both our workforce and our supply chain are resilient and ready for the future.

Workforce Resilience

- 2 In year 3 of RIIO-GD2 (referred to as GD2 throughout this submission) we have 4876 full time equivalent (FTE) across both of our networks which includes all front-line employees, back-office, leadership, management and supporting staff. At the start of GD3 we expect this to increase to 5,235 FTE, the key driver for this will be due to recruitment of additional FTE to support a move to 12 hour working as well as increase to direct labour for Southern Repex.
- 3 The changes and scale of workforce and labour requirements will also introduce additional costs compared to GD2, these are predominantly due to the new working practices being introduced and must be managed in order to mitigate any risks.
- 4 In order to meet the challenges we face in GD3 we need to implement new working practices to keep our people and customers safe and ensure high levels of productivity from a larger workforce. We also need to meet our employees' expectations of work-life balance, to retain motivated and committed people who deliver more for our customers. As such, our workforce resilience strategy for GD3 focuses on: (i) enhancing workforce flexibility; (ii) prioritising safety and wellbeing; (iii) providing competitive and equitable compensation; and (iv) promoting career development and progression. Notably, we are committed to:
 - Targeting a maximum working day of 12 hours a day by the end of GD2, complying with the new Fatigue Management Requirements;
 - Recruiting and training more than 150 early career routes, including more than 50 apprentices, each year; and
 - Increasingly reflect the communities that we serve.
- 5 Focus must be put on our Workforce and Supply Chain Resilience strategy and supporting initiatives in order to achieve our GD3 commitments and are described in detail within this document, in particular section C.
- 6 Following surveys of our workforce in 2022 and 2024, we have seen improvements over the period, with our ethnic minority representation increasing by 56% over the last four years. However, we also recognise that there are areas that require further development. Having a modern, diverse and well-trained workforce in place is critical to the delivery of our GD3 plan.
- 7 A key focus of the health and safety for GD3 will be implementing the new Fatigue Management Requirements from the Health and Safety Executive (HSE) to change our working patterns to reduce the risk of fatigue for shift workers. We have, therefore, undertaken detailed modelling to establish how we move from a 16 to 12-hour maximum working hour policy and the impact it will have on different frontline teams. We have looked at each of the depots that we currently operate, and the workload that depot delivers (given historical information), assessing the additional headcount required to deliver our emergency response and repair workload across our distribution and transmission asset. The assessment is separated into two components: (i) costs that were submitted as a reopener at the end of Sept 2024 and cover the recruitment, training and equipment cost; and (ii)

the operational costs of maintaining the additional headcount through the GD3 period. The costs included in our GD3 business plan only include the operational costs. If the reopener is not determined in time, then those training and recruitment costs will need to be included in the final determination of costs.

8

[REDACTED]

[REDACTED]

[REDACTED] sufficiently manned to eliminate the risk of surpassing 12 hour working limits.

- 9 In GD2, the HSE reopener was used to allow for the recovery of costs associated with the change of working patterns to reduce the risk of fatigue for shift workers. This provided an effective way to manage the risk associated with uncertainty within a price control period, particularly when there was insufficient information for network companies to quantify the level of or type of risk at the time of business plan submissions.
- 10 Experience from GD2 shows the impact of unpredictable events and uncertainty around workforce resilience requirements. It is not possible to predict the impact that this could have for maintaining a safe and resilient network in GD3. These uncertainties introduce risks that need to be managed and controlled through the price control period. We would propose that there is a workforce resilience reopener introduced that should be used to mitigate against any risk that could become apparent within GD3 period.
- 11 We have challenged ourselves on costs to ensure that we deliver value for money within GD3. We have ensured that there is an appropriate balance between allowances and uncertainty mechanisms to build a clear level of transparency and cost confidence. A workforce resilience reopener would support this approach while allowing GDNs to continue to mitigate against any risk to maintaining safety and resilience of the network through identifying any new risks in relation to workforce resilience as well as any associated mitigation measures through a reopener process.
- 12 With the increasing need for recruitment to support GD3 and changing shift patterns, we will need to enhance our brand and employee offering to ensure we are attractive to a wide and diverse group of candidates. We aim to ensure that: (i) any remaining CV bias in our recruitment processes are removed by partnering with behavioural experts and removing the CV screening process; (ii) our leaders embody and promote Equality, Diversity and Inclusion (EDI) culture by attending EDI training and

implementing incentives for compliance; and (iii) we enhance the support network for employees, such as Women@SGN SGN Pride and Ability@SGN.

- 13 To support SGNs recruitment of 514 FTEs following our commitment to implementing 12-hour working, we will focus on attracting people to the energy sector. To do so, we will develop relationships with trade schools, universities, and community colleges, building on our previous programmes which had a national footprint of 117,000 pupils in the 2023 to 2024 academic year. Alongside promoting to the next generation, we will support ex-offenders to reintegrate into society through our work with HM Prison and Probation Service and the introduction of our new initiative during GD3 to hire ex-offenders, allowing us to access a broader talent pool, promote inclusivity and support the community.
- 14 We intend to provide programmes such as structured onboarding to enhance integration into company culture, flexible work options with the objective of increasing employee engagement and autonomy, opportunities to upskill, employee wellbeing programmes and recognition programs to celebrate high performing colleagues. Alongside this, to further improve workforce motivation, we will ensure that employees receive regular compensation reviews and incentives. Our IT and Telecoms Strategy will also position us to confidently and automatically share more data sets supporting cross-industry alignment, supporting innovation, and driving social benefit.
- 15 The health and safety of our employees and the public is our top priority. In 2023 we launched our PROTECT brand, with a focus on 'Zero Harm, Zero Exceptions', and we are measuring progress using the Hudson Safety Cultural Maturity Model. We are currently assessed at level 3 and we will strive to continually improve on this through GD3. To achieve this goal, we have outlined 19 key steps of our Workforce Strategy to enhance wellbeing, including implementing a robust risk assessment process, using a systematic approach to risk management and fostering a supporting environment.
- 16 We will monitor our success with the above by tracking the following key metrics:
 - (a) Workforce characteristics and resourcing;
 - (b) Skills development; and
 - (c) Retention.

Supply chain strategy

- 17 In RIIO-GD1 (referred to as GD1 throughout this submission) we employed on average over 180 contract labour teams per year to support the delivery of our Tier 1 Repex programme. At the start of GD2 this number dropped significantly to under 120 contract labour teams to support Repex. The key driver for the reduction of contract labour teams was due to the allowances being reduced, an increase in complexity of work type, and competing markets within Great Britain for the skilled resource.
- 18 [REDACTED] This is understood as our Repex programme workloads are fully understood by our teams, more details are included within our Network Asset Management Strategy (SGN-GD3-SD-06).
- 19 With the changes to workload type and availability of skilled labour to deliver, it is expected that costs to attract contract labour to deliver the workload will increase.
- 20 We must therefore strive to create an efficient and sustainable supply chain. The correct contracting strategy and a streamlined supplier base can lead to improved quality control, improved risk mitigation and flexibility to meet business demand. Through our supply chain resilience strategy, we will tackle some key issues for GD3, such as: (i) the increasing complexity in the work that needs to be delivered; (ii) increasing contractor costs; and (iii) limited internal and external labour.

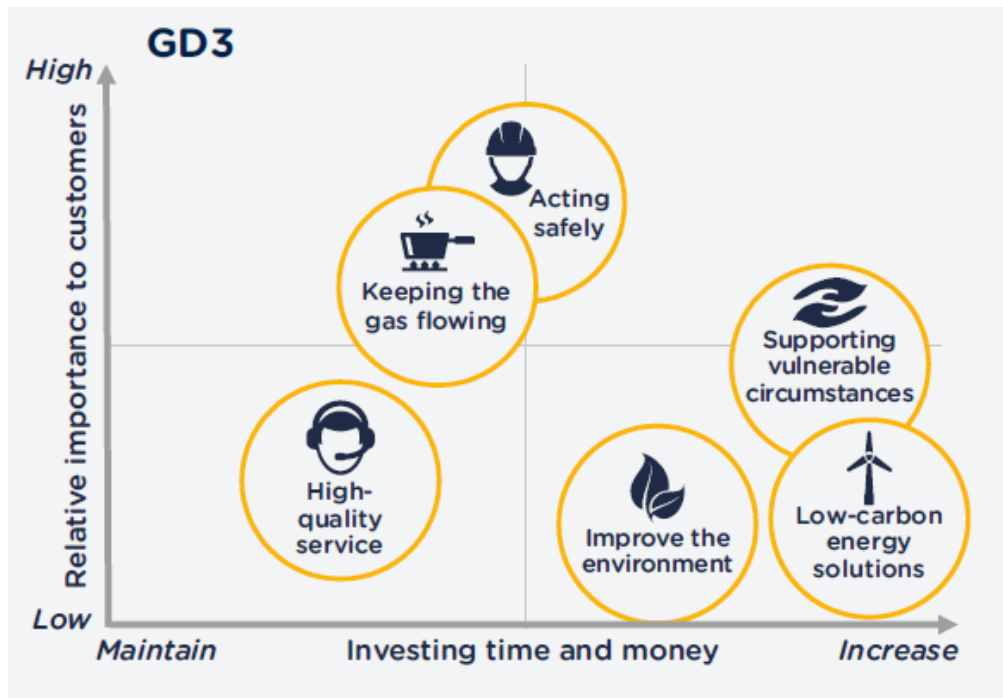
- 21 We will deliver value to customers through efficient investment and delivery, as well as innovation improvements and efficiencies that benefit customers, for GD3 we have made the following Commitments:
- We will be ranked in the top 3 for efficiency for both our networks in a well-calibrated cost assessment that reflects the efficient costs of working in our network areas; and
 - We will deliver more than £89m of operational savings through core innovation across GD3.
- 22 Our strategy focuses on improving supply chain resilience, reducing inefficiencies and optimising cost management, all of which are critical components of our transformation efforts. We aim to do so by creating long-term capacity and maintaining maximum competitive tension.
- 23 [REDACTED]
- 24 To address these cost increases, in GD3 we will mitigate supply chain pressures by taking steps to build and maintain strong relationships with suppliers, pre-ordering and buying in bulk where possible.
- 25 We will also collaborate with industry and government bodies with a main goal of assessing our relative competitiveness and share procurement-related learnings to inform our strategy. We understand that complex supply chain challenges cannot be solved by individual efforts and that industry-wide collaboration is required to prevent and audit fatigue, provide training, and prevent redundancy and extensive administrative activities.
- 26 We see innovation as a key element to be able to improve the quality of our outputs, improve efficiency and offer good value for money to our customers, maximising our competitive position. To drive innovation in our supply chain, we are proactive in identifying new ways of working and technologies to leverage. We also encourage direct communication across our supply chain, with collaboration being viewed as a key aspect in identifying further cost or logistic benefits.
- 27 Our procurement activities evolved during GD2 and will need to evolve further in GD3. During GD2, we faced industry headwinds and we found that standard approaches previously used to attract new contractors were becoming ineffective. In response, we implemented short-term commercial initiatives such as Reducing Supplier Risk related to Contingencies and introduced growth incentives, although these initiatives were only successful in the short term.
- 28 Therefore, in addition to the existing incentives, in GD3 we will implement changes in the standard contract form to standardise our contractual framework, streamline processes and enhance clarity in suppliers' expectations. We also suggest a change in flexible commercial models to assess projects based on complexity and attractiveness to contractors, because we need to ensure that work is commercially viable for those contractors best suitable for it, and remains attractive to suppliers. This is different from GD2, where contractors completed work based on a comprehensive schedule of rates, taking on a large proportion of the risk related to work productivity.
- 29 We are confident that the changes we plan for our procurement process, coupled with the enhancements which were put in place during GD2, will allow us to deliver the entire scope of our GD3 capital investment programme efficiently and on time. We will demonstrate this by presenting two worked examples which will demonstrate the benefits of our planned supply chain approach for GD3.

Customer and stakeholder insights

- 30 Our core GD3 business plan activities are driven by securing compliance with regulation and by ensuring we deliver on what is valued by our stakeholders. To understand their priorities and investment expectations, we conducted comprehensive customer and stakeholder engagement. We presented customers and stakeholders with comprehensive overview of our performance across seven

key areas and asked them to rate the importance of each area and their appetite for additional investment in this area. The result of this survey is presented in Figure 1.

Figure 1: Customer and stakeholder priorities



31 The survey indicates that:

- Our stakeholders consistently ranked 'Acting safely' and 'Keeping the gas flowing' as their top priorities. 'Acting safely' was rated the highest across all customer and stakeholder groups. Our good safety performance was generally recognised, and the majority felt that maintaining existing levels would be sufficient;
- 'Keeping the gas flowing' was ranked as the second most important priority by customers and third by stakeholders. While considering core to our role, both groups expressed satisfaction with our current performance and indicated no need for increased investment in this area;
- In terms of appetite for investment, customers and stakeholders believe we are performing well and therefore the majority feel maintaining existing levels would be sufficient although if more investment in safety is required then this should be a top priority. Some network stakeholders are aware of an increasing number of safety incidents and therefore believe more investment is necessary; and
- Most customers and stakeholders believe developing low carbon energy solutions, supporting customers in vulnerable circumstances, and improving our environmental performance are important and we should invest more time and money in these areas.

32 Customers and stakeholders agree our plans for 'low carbon energy solutions', 'supporting customers in vulnerable circumstances', and 'improving our environmental performance' are all going in the right direction and have the right level of ambition.

33 Within Chapter 2 of the main business plan, we provide further details around how our customers' priorities and insight from our customers and stakeholders has informed our plan and influenced the nature and scale of the investments we will make. We also explain the important role played by our

Independent Stakeholder Group in challenging our decision making and ensuring our plan balances investment with value for money.

- 34 This approach has influenced and aligns with our workforce and supply chain resilience strategy with a focus on ‘Acting safely’, ‘Keeping the gas flowing’, as well as investing more in ‘low carbon energy solutions’, ‘supporting vulnerable customers’, and ‘improving our environmental performance’.

Section B Introduction

B.1 Purpose of document

- 35 We have the long-term ambition for our network to continue playing a role in a decarbonised energy future, and the delivery of our GD3 plans requires a modern, diverse and well-trained workforce, as well as an efficient and streamlined supply chain. To achieve this, we must develop the skills of our workforce and work with innovative and forward-thinking supply chain partners.
- 36 As a major employer within both our regions (i.e. Scotland and southern England) that provides a critical service to society, we must ensure our workforce is resilient and ready for the future. Our workforce is highly skilled, and we face fierce competition from other sectors particularly in south-east England. In GD2 we have worked hard to rebuild our frontline teams¹ and develop the skills they need to deliver a safe and reliable service to our customers. We have also taken on 366 apprentices, trainees and graduates who are key to the future of the industry.
- 37 This workforce and supply chain resilience strategy sets out how we will ensure that we have the right people – both with regards to the direct workforce and to supply chain partners – with the right skills to deliver our Licence obligations, the operational improvements and the investment we have committed to in GD3. It also sets out how we are preparing for the future of our workforce by ensuring we have the skills we need to play our role in a clean energy future. Furthermore, we explain how we will ensure we have sufficient capacity in our supply chain and can competitively procure the resources and materials we need to deliver our day-to-day service as well the GD3 investment programme.

B.2 Commitments

- 38 Our workforce resilience strategy for GD3 is designed to:
- (d) Enhance workforce flexibility;
 - (e) Prioritise safety and wellbeing;
 - (f) Provide competitive and equitable compensation; and
 - (g) Promote career development and progression.
- 39 Our supply chain resilience strategy for GD3 is designed to address key issues, including:
- (a) Increasing delivery of complex work, particularly as a result of our Repex programme where work in GD3 will need to be undertaken in areas of our network that typically have more complex configurations;
 - (b) Rising contractor costs due to increasing competition for supply chain resources; and
 - (c) Limited internal and external labour to deliver the workloads. This is a particular challenge in the Southern region due to a number of factors including: Brexit which reduced the supply of critical labour to our contractors; Covid changed lifestyle preferences with contractors requiring a greater premium to work away from home; and we have faced increased competition from other utilities. This has reduced resources and further increased costs.

¹ We experienced an increase in the number of frontline staff leaving in the wake of COVID.

- 40 Acting safely is consistently rated the highest importance across all customer and stakeholder groups. Customers and stakeholders perceive safety as a hygiene factor with a strong expectation for SGN to maintain high standards.
- 41 This has informed our plan and influenced the nature and scale of the investments we will make, particularly around areas related to workforce and supply chain resilience. Our customers expect the safety and reliability of our network to be maintained in GD3 and expect us to invest where needed to avoid any reduced standards or deterioration in service. Customers and stakeholders supported the recruitment and training of engineers to ensure a safe network, with some utility and environmental stakeholders experiencing issues with recruiting a skilled workforce.
- 42 In line with this, we have made a number of GD3 Commitments specifically related to our Workforce and Supply Chain Resilience Strategy. These commitments have resulted in targeted investment within our business plan to align with customer and stakeholder priorities. These will support safety and reliability of the network and will mitigate against the risk of any deterioration to standards, thus providing benefit to our customers through GD3. Framed alongside our Outcomes, these Commitments are:
 - **Outcome 1:** Our network transports gas safely and reliably to meet the demands of our customers in all scenarios:
 - We will continue to look after the health and safety of our employees by targeting a maximum working day of 12 hours by the end of GD3.;
 - **Outcome 2:** We will build a more resilient workforce that works efficiently to deliver more value to our customers:
 - We will recruit and train more than 50 apprentices each year.; and
 - We will increasingly reflect the communities that we serve.

B.3 Structure of document

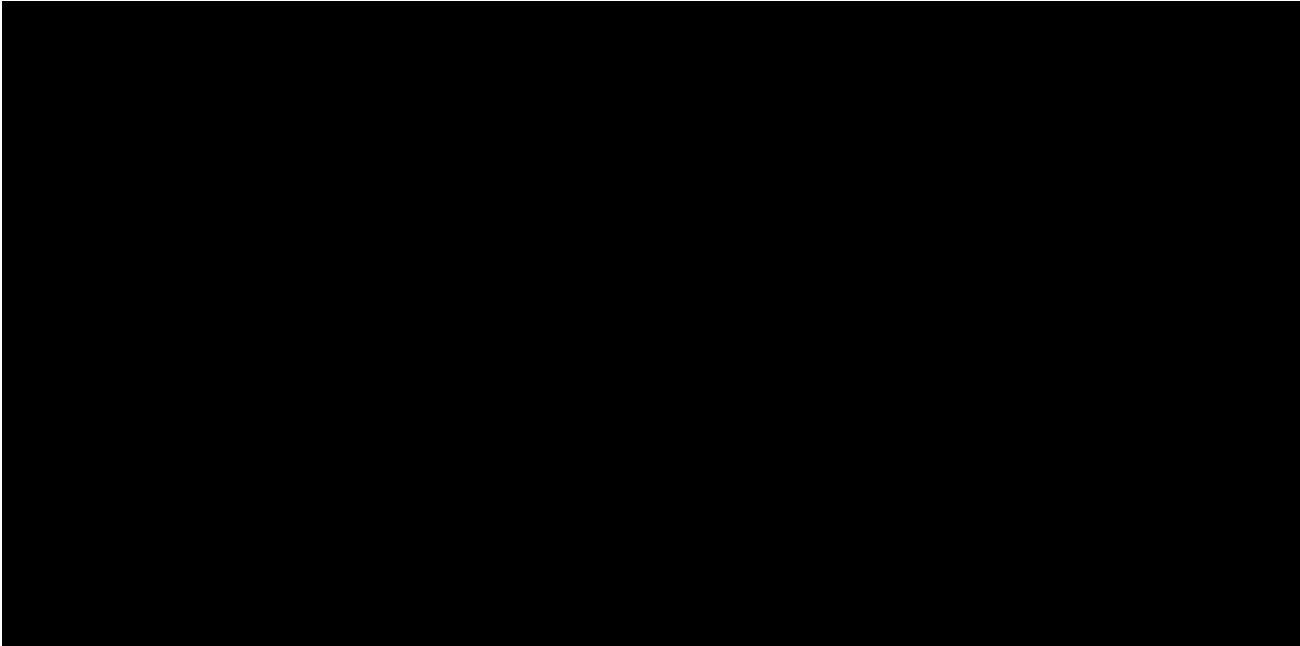
- 43 The rest of this document is structured in two sections. In Section C, we describe our workforce resilience strategy and how our approach will develop and maintain a workforce that is diverse, modern, high-quality and well-trained in preparation for the future. In Section D, we set out our supply chain resilience strategy and the steps we are taking to create long-term capacity and to maintain maximum competitive tension. Also in Section D, we set out two worked examples to illustrate the actions that we are taking to mitigate supply chain challenges that have emerged over the GD2 period, and the consumer benefit of our actions.

Section C Workforce resilience strategy

C.1 Workforce resilience strategy background

44 [Redacted text block consisting of multiple lines of blacked-out content]

[Redacted text block consisting of two lines of blacked-out content]

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- 45 As can be seen from Figure 2, we are anticipating significant activity in terms of recruiting, onboarding and training additional FTE within the GD3 period. We discuss the key drivers in more detail within this document, the key area of challenge is the sheer scale of recruiting an additional approximately 2,017 within GD3 which will be used to offset the significant attrition that we will expect in GD3.
 - 46 The recruitment challenge we have within GD3 to implement new Fatigue Management Requirements from the HSE will create headwinds to our cost base. As part of externally validated analysis the impact of these changes to our cost base will be seen on both our networks.
 - 47 We have seen an increase in our churn rates within Southern region with historic rates ranging from 8 – 10%, while more recently this has increased to approximately 13% in 2021 / 22. In the first half of GD2 there has been a significant disparity between the requests for new starts and the actual new starts.
 - 48 Since 2018 we saw a steady increase in the requests for first-call operative (FCO) and Gas distribution assistants (GDAs) roles with around a 50% increase between 2019 and 2021 (discounting lower numbers in 2020 due to the Covid Pandemic). The need to recruit front line roles increased at a higher rate than previously experienced and this continued into 2022, when we had to fundamental change our recruitment process to secure the necessary frontline resource.
 - 49 We discuss the evidence of the availability of skilled labour within GB and how this is evolving over time within our Cost Assessment and Benchmarking Strategy (SGN-GD3-SD-08) and we highlight the regional challenges that come about through increasing cost of living issues within the Southern regions of GB. We will also see an impact to our Scotland network due to greater sparsity challenges than in Southern.
 - 50 To minimise the impact of additional FTE has on customer bills, we acknowledge that within our Southern network, the first two years of GD2 were challenging with labour and contractor shortages making it hard to deliver efficiencies. We have carried out in-depth analysis of our cost base within the last 18 months, running an internal programme to identify and implement process efficiencies. This has led to us embedding efficiencies on our cost base compared to our GD2 comparative position. We have presented further detail on this in our Cost Assessment and Benchmarking Strategy (SGN-GD3-SD-08).
 - 51 Efficiencies have been focussed on back-office areas that support our front-line operatives to ensure we maintain a safe and resilient network for our customers. We have also identified efficiencies

through better onboarding and training of our frontline staff, improving the productivity of our workforce and reducing the need for expensive overtime rates.

- 52 Our workforce is the key to the delivery of high-quality service of our customers and therefore are a critical part of our company. By 2030, we strive to be the employer of choice in the geographical areas we operate, and we aim to do so by creating and maintaining a modern, flexible, safe and sustainable working environment that aligns with our business demands and strategy. Our volumes of upcoming recruitment also allow us to be a consistent employer in the communities we serve, offering jobs from apprentices to experienced craftspeople to senior management roles in these areas across GD3.
- 53 We undertook surveys of our workforce in 2022 and in 2024 (the 'Great Place Survey') which has allowed us to benchmark our workforce's engagement and satisfaction historically and against other companies that participate in the survey. We have seen an improvement in our scores in 2024 compared to 2022 in all six historically comparable categories of: engagement index; inclusion index; leadership index; manager; working for SGN; and reward and recognition. However, we recognise there are further improvements that can be made.
- 54 In line with our workforce commitments for GD3, the following sections set out our approach and strategies to the following:
- Section C.2: Improving equality, diversity and inclusion;
 - Section C.3: Improving workforce satisfaction and retention;
 - Section C.4: Improving workforce motivation and productivity;
 - Section C.5: Attracting people to the energy sector and developing skills;
 - Section C.6: Upskilling and multi-skilling our workforce;
 - Section C.7: Ensuring the health, safety and wellbeing of our workforce – general;
 - Section C.8: Ensuring the health, safety and wellbeing of our workforce – HSE Fatigue Management Requirements;
 - Section C.9: Developing common metrics for measuring and monitoring workforce resilience;
 - Section C.10: Quantifying the level of workplace shortage at a sector level; and
 - Section C.11: Engaging with the Government.
- 55 We describe each of these in turn below.

C.2 Improving equality, diversity and inclusion

- 56 We strive to have a workforce that reflects the communities we serve, because this will allow us to attract and retain the best talent. Indeed, there is significant evidence that diversity matters, and that more diverse organisations and companies are more successful than their less diverse counterparts.² One of the objectives of our GD3 plan is to ensure that our workforce is demographically and cognitively diverse and has a shared sense of purpose and thinking.
- 57 Over the course of GD3 we will recruit approximately 2,000 FTEs which gives us a good opportunity to continue to diversify our workforce. In GD2 we made significant strides to increase diversity via recruitment – in the past four years we have increased our ethnic minority representation by 56% but we acknowledge we can go further. With the amount of recruitment that will be needed for GD3 we will enhance our brand and employee offering to ensure we are attractive to as many people as possible and that our workforce closely matches the diversity of the communities we serve. This

² <https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/why-diversity-matters>.

includes working with schools to ensure we are an enticing proposition to the next generation of employees (for which more information can be found at Section C.5). This presents a unique opportunity for us which we will take maximum advantage of, and we are committing to achieving our recruitment goal through a series of key initiatives that we will adopt for GD3.

58 [Redacted text block]

59 The need to increase the number of FTEs provides us with a unique recruitment opportunity to help us ensure that our overall workforce closely matches the diversity of the communities we serve. We have, therefore, considered which initiatives we should adopt for GD3 to take maximum advantage of this opportunity. Our GD3 plan, therefore, includes the following initiatives:

- (a) ensuring that we remove any remaining CV bias from our recruitment processes;
- (b) ensuring that our leaders embody, and place a greater emphasis on, EDI culture; and
- (c) enhancing our support networks for employees.

60 We describe these initiatives in turn below.

Ensuring that we remove CV bias from our recruitment processes

61 Analysis of the profile of people that were going through our recruitment process indicated that the diversity of applicants for entry-level roles was inadequate (e.g. only c.4% were female and c.12% were of ethnic minorities). We partnered with behavioural experts to understand the barriers that were preventing diverse candidates from applying. The outcome of this process was that, historically, in the initial recruitment process, we would reject candidates with CVs demonstrating a lack of direct experience. An initiative we have incorporated into our company is the removal of CV bias from entry-level recruitment. Based on this evidence, we revised our recruitment process for entry-level roles by removing the requirement of having previous experience and focused on asking applicants if they had the skills and potential for the roles. Applicants were then invited to undertake an online task-based assessment. As a result of the new process, we obtained a significant improvement in diversity: in October 2023, 20% of new hires were female (more than four times than before) and 35% of new hires were of ethnic minorities (more than three times than before). Applicant feedback on the recruitment process was also overwhelmingly positive: 91% stated that through the recruitment process they had a positive impression of SGN. This was also confirmed by anecdotal evidence from hiring managers, who indicated that the applicant cohort was the strongest to date.

62 Based on the success of removing CV bias from our entry-level recruitment process, we have made the decision to strip the CV screening process from the entry-level hiring process, and to disregard prior experience in the sector for recruiting Director-level roles. We hope that by adopting this approach we will be role models in the industry and allow it to be more inclusive and bias-free as a result.

Ensuring that our leaders embody EDI culture

63 Senior management has significant influence on the behaviour and actions of our workforce. Therefore, if we want the EDI culture to propagate to the organisation, we must ensure our leaders fully embody EDI culture. To achieve this objective, every SGN leader and people manager will receive bespoke face-to-face EDI training with a focus on embracing differences and cognitive diversity.

³ [Redacted footnote text]

- 64 We will continue to run our successful reverse mentoring programme ('Different Perspectives') to allow more senior leaders to receive mentoring from younger or more junior employees. This programme allows leaders to gain a first-hand insight into the challenges and viewpoints of employees from diverse backgrounds. Engaging junior employees in this way can also increase their job satisfaction and commitment to the organisation, leading to higher retention and engagement.
- 65 Unconscious bias, limited representation and lack of awareness are examples of unfair barriers that may exist in a company's communication, processes, policies, practices and in our services with customers. Removing these barriers will be a formal objective (and bonus target) for leaders across the business and will begin with educating the workforce. All our employees will be required to undertake mandatory EDI training to raise their awareness of EDI concepts. Our values of Openness, Respect and Innovation are relevant and important for an EDI working culture and therefore we will ensure they are embraced by employees. To make sure that our leaders will be accountable for their actions and the resulting outcomes, we will introduce specific incentives to ensure that leaders are fully aligned with the EDI outcomes.

Enhancing our support networks for employees

- 66 We will continue to develop support networks for our employees as we understand the importance of building communities and fostering inclusion in the workforce. We have created and supported the following networks for our employees:
- (a) Women@SGN – this supports the women across the business by holding sessions covering development, confidence, and job applications. We held a successful week in celebration of International Women's Day in March 2024 with webinars from senior women in the company, including the Board, sharing their career journeys and less formal 'Let's Chat' sessions. We are currently developing something similar for International Women's Day 2025;
 - (b) SGN Pride – this is a safe space for our LGBTQ+ colleagues to share their experiences and receive advice. The network also publishes various communications which are aimed at increasing education and awareness of LGBTQ+ issues to the wider business;
 - (c) Ability@SGN – this supports our employees with health conditions and disabilities. We have joined the Business Disability Forum which provides a knowledge base and access to expert advice to support our employees and their managers to find the best tailored support for them. We have completed a Business Disability Forum self-assessment to identify where we are on our disability inclusion journey. The self-assessment provided us with recommendations and which we look to implement across GD3;
 - (d) Race Equality, Military and Parents and Carers Networks - we have recently launched the Race Equality, Military and Parents and Carers Network and plan to launch more networks into GD3. We have 1000 members of staff in these networks and our aim in GD3 is to ensure these networks are fully aligned with our business goals; and
 - (e) Professional development – supports networking and mentoring of individuals across the business to support ongoing professional developments across all functions within SGN.
- 67 Although we have seen a 34% increase in female representation in the past seven years, and in 2023 our workforce was 19.1% female which was above the GDN average of 14%, we have an immediate focus on gender inequality as there are few women in operational roles and in senior roles who can act as role models. We are working with others, including National Grid, Scottish Power and UK Power Networks, in the industry to help increase the attractiveness of these roles to the female population and over the course of GD3 we expect more cross-company collaboration to support this.

C.3 Improving workforce satisfaction and retention

- 68 While we have a substantial recruitment requirement for GD3 as a result of shift pattern changes from 16 hours to 12 hours, we understand that it is insufficient to focus solely on recruitment during the GD3 period as there must also be a focus on improving the satisfaction and retention of existing staff. Our plans in this area include providing the following to our employees:
- (a) Structured onboarding for new employees: by creating a comprehensive onboarding process, this ensures that new employees are given training and mentorship which allows them to integrate into the company culture;
 - (b) A buddy system: we will pair new hires with experienced employees to facilitate knowledge transfer and cultural acclimation;
 - (c) Flexible work options: where feasible we will explore flexible scheduling, remote work for non-field positions and compressed workweeks. Flexible working has been shown to increase employee engagement, reduce employee turnover and allows employees a level of autonomy for a better work-life balance;⁴
 - (d) Employee wellbeing programs: we will implement initiatives that support the mental health, work-life balance, and stress management of our employees;
 - (e) Regular surveys: we will continue to conduct employee satisfaction surveys to gather feedback on workplace culture, management practices, and areas for improvement. We will ensure that employees' voices are heard and that suggested improvements are considered and actioned which will lead to improved retention;
 - (f) Recognition programs: employee achievements should be recognised and celebrated, and we will implement programs to do so, including awards, appreciation events and public recognition via our social media channels;
 - (g) Career pathing: it is essential to develop clear career pathways for employees so that they can visualise their advancement opportunities within the organisation; and
 - (h) Community involvement programmes: we will encourage employees to volunteer and participate in community service and outreach programmes to foster a sense of purpose and belonging.
- 69 We will also collaborate with industry associations to ensure that our company remains informed about best practices in recruitment and retention.

C.4 Improving workforce motivation and productivity

- 70 We want our employees to be motivated as this will ensure that they work effectively during the GD3 period. Many of the initiatives described in Section C.2 *Improving equality, diversity and* and Section C.3 *Improving workforce satisfaction and retention* will also be beneficial in improving workforce motivation and productivity. In addition, we will ensure our employees receive:
- (a) Regular compensation reviews, which will ensure salaries and benefits remain competitive within the industry by benchmarking against other companies in the energy sector; and
 - (b) Incentives, such as recognition programs to reward excellence, and performance-based bonuses.
- 71 Through our IT and Telecoms Strategy (SGN-GD3-SD-07) we have developed a plan that allows us to maintain our IT systems services and infrastructure to underpin our ability to provide emergency response, network operations and asset management to ensure a safe and secure network, protecting life and property, to serve our customers and other stakeholders and to add social value by innovating and sharing data.

⁴ <https://www.forbes.com/sites/carolinecastrillon/2022/03/23/why-flexible-work-boosts-employee-productivity/>

- 72 We are confident that the investments included in the IT and Telecoms, Digitalisation and Cyber Security sections of SGN's GD3 business plan represent the level of ambition that will enable SGN to transform its capability and increase its operational effectiveness while building on our solid foundations of emergency response and customer service. These foundational investments in data and platforms will position us to confidently and automatically share more data sets supporting cross-industry alignment, supporting innovation, and driving social benefit.

C.5 Attracting people to the energy sector and developing skills

- 73 Attracting talent to the energy sector is crucial for the growth of our company and for the growth of the wider industry as well. Indeed, as at October 2024, we had 394 learning employees (i.e. in apprenticeships or graduates) across frontline areas of the business and we intend to recruit more.
- 74 We have identified the following technical skill areas are required for a technology drive, low carbon energy system:
- (a) Biogas and biomethane: skills in biogas production, upgrading to biomethane, and integration into the gas grid;
 - (b) Hydrogen technology: knowledge of hydrogen production, storage, and distribution;
 - (c) Gas network engineering: proficiency in designing, maintaining, and upgrading gas distribution infrastructure';
 - (d) Internet of Things ("IOT"): Electrical and Instrumental ("E&I") engineering, knowledge of IOT devices for monitoring, and automated control systems;
 - (e) Safety and compliance: expertise in safety protocols, regulatory compliance, and environmental standards specific to gas networks; and
 - (f) Data analytics and Artificial Intelligence ('AI'): skills in data analysis, machine learning, and AI applications for predictive maintenance and network optimisation.
- 75 We also recognise that soft skills are important, including: resilience and change; programme and project management; collaboration and teamwork; and problem solving and critical thinking, especially with complex challenges and the innovation that is expected ahead.
- 76 Our GD3 plan initiatives to attract people to the energy sector and develop the skills required for the future include:
- (a) Promoting to the next generation;
 - (b) Developing our future leaders; and
 - (c) Supporting ex-offenders to reintegrate into society.

Promoting to the next generation

- 77 The young people of today are the leaders, professionals, engineers and analysts of tomorrow, and therefore it is important to us that we develop relationships with trade schools, universities, and community colleges. For the 2023 to 2024 academic year, our programmes and activities had a national footprint engaging over 117,000 pupils. This approach allows us to create pipelines for entry-level positions and internships by selecting candidates directly from the source. As part of these relationships, we will clearly articulate the benefits of working in the energy sector by emphasising career stability, competitive pay, benefits and the opportunities for advancement.
- 78 We are looking to establish more robust outreach STEM and work experience programmes across our business to showcase the career opportunities within our sector and organisation. We will work with the following organisations:
- Primary Engineer;

- STEM.org; and
- STEMAmazing.

Our work with STEMAmazing will have particular focus on addressing gender balance.

- 79 We will partner with universities and colleges on the development and delivery of degrees and courses in hydrogen technology, gas engineering and environmental sciences. We will also partner with colleges to develop and deliver vocational training on technical certification programmes such as for network maintenance and biogas plant operation.
- 80 It is also important that the wider public are aware of SGN as an employer. We will leverage social media, industry events and partnerships with educational institutions to promote our company as an employer of choice.

Developing our future leaders

- 81 We offer ongoing learning programmes, certifications, and professional development opportunities to enhance employee skills and to ensure our employees are continuously learning and do not feel stagnant in their roles. We have partnered with online platforms to offer courses on emerging technologies and best practices, and we regularly organise industry-specific workshops and seminars to update our colleagues on the latest advancements in the sector. Our targeted development programmes will create a pipeline of future leaders for our business and beyond.
- 82 Our use of mentor programmes allows our employees to be paired with experienced leaders in our business. This will allow mentors to provide and share valuable insight and advice to the mentees in navigating the professional world and in making informed decisions. Mentors can also share their own experiences and lessons learned with their mentees to help them avoid common pitfalls and accelerate their growth. Importantly, a mentor can help keep mentees accountable for their career goals and provide support and motivation in the process. We offer coaching and mentoring to employees from early careers through to gaining professional recognition (e.g. Chartered Engineer).

Supporting ex-offenders to reintegrate into society

- 83 Our recruitment team has been working with the New Futures Network, part of HM Prison and Probation Service to introduce an initiative during GD3 to hire ex-offenders who are reintegrating with society. Benefits of this initiative to our company as well as the ex-offenders and the wider community include:
- (a) Access to a broader talent pool. Many ex-offenders possess valuable skills and experience which will make them a great fit for various roles. They also tend to be highly motivated to rebuild their lives, leading to increased dedication and productivity in the workplace;
 - (b) Increased employee loyalty and retention. Ex-offenders often show loyalty to employers who give them a second chance, resulting in lower attrition rates. A reduced turnover of staff would mean fewer recruitment cycles and hence significantly lower hiring and training costs;
 - (c) Promoting inclusivity. Hiring ex-offenders can promote a culture of inclusion, diversity and compassion in our company; and
 - (d) Supporting the community and reducing reoffending. Employment is a powerful tool for reducing reoffending and by providing stable jobs to ex-offenders, we would help them reintegrate into society and reduce crime and support community development. Offering second chances to ex-offenders help them to rebuild their lives but it also supports their families and benefits society more generally.
- 84 We will promote positions such as Support Driver, Stores Person and Trainee Gas Engineer to potential candidates. We plan to attend careers and job fairs held in prisons, starting with a trial at Ford Prison in West Sussex before expanding to other facilities. This face-to-face engagement will allow us to connect directly with potential candidates.

- 85 Following our attendance of careers and job fairs, we will invite candidates to complete online skills-based assessments, which will facilitate a CV-less hiring process (for which more information is provided in Section C.2 *Improving equality, diversity and inclusion*). This approach will allow us to evaluate candidates based on their skills and potential to perform effectively in the roles they apply for. This concept has garnered strong support from several Operations Managers in our company already. Throughout the process, the New Futures Network will conduct thorough risks assessments to ensure the safety and suitability of candidates.
- 86 Once the assessments have been completed, our recruiters will initiate a call with candidates to clearly explain the recruitment process and address any questions they may have. Successful candidates will then be invited for interviews, and upon selection, they will be placed in their respective roles and enrolled in a mentorship programme. These mentors will work to build rapport with the new starters before their start date and continue to support them throughout their employment. By serving as positive role models, mentors will assist in the seamless integration of ex-offenders into the business, supplemented by regular one-on-one check-ins with their line managers to ensure ongoing support and development.

C.6 Upskilling and multi-skilling our workforce

- 87 As the UK transitions towards net zero in a world of evolving technologies, we need to make sure our workforce has the right skills to maintain the highest standards of safety and efficiency across our networks. We will ensure we have a workforce that is fit for the Future of Energy by:
- (a) Upskilling and multi-skilling our existing workforce, which will lead us to deliver a faster service to our customers by having more people in the company who can do more jobs; and
 - (b) Recruiting and nurturing future talents with the required skills.

Upskilling the existing workforce

- 88 We will continue to roll out formal learning and qualifications to our engineers, project and asset managers, and people managers that are tailored to their professional development needs.
- 89 Across all levels and specialties, we will introduce an internal development network and create a career mobility hub to identify and encourage development/progression routes, so that everyone can have the opportunity to upskill themselves. We also aim to increase the number of people who participate in upskilling programmes from 21 to 250 by the end of GD3.
- 90 For engineers, we will continue to promote, fund and encourage our people to obtain professional status via bodies such as the Institution of Engineering and Technology, the Institution of Mechanical Engineers, the Institution of Gas Engineers and Managers and the Association of Project Management ('APM'). We have implemented a focus group to raise awareness and opportunity.
- 91 For Project Managers and Asset Managers, we will continue to support them in attaining and maintaining both APM and Institute of Asset Managers professional certifications. We are also adopting a strategic approach by adopting the APM methodology across all our project management functions to ensure consistency and best practice. We have become a corporate partner with APM and are offering development opportunities to all employees. We have also implemented early careers routes in APM-endorsed degree apprenticeships.
- 92 To all colleagues, we will continue to offer relevant development programmes, using levy funding in England to do so. In 2024, we have upskilled a total of 21 members of staff. We will also start offering a company-wide programme of mentorship and coaching in GD3, across all levels and functions in the business. This is to ensure our energy networks continue to be efficiently managed.
- 93 We are investing in a learning experience platform to cater to the learning needs of our workforce. We propose that the new platform will have the following benefits:
- (a) Drives developmental ownership in our workforce;

- (b) Creates exclusive and unique learning experiences for our employees;
- (c) Provides role and skill-specific content to create a future ready workforce; and
- (d) Allows us to obtain analytics-based content investment decisions.

Recruiting and nurturing future talents with the required skills

- 94 In GD3, we will continue to increase our graduate programme, growing from nine people (five in Scotland, four in Southern) to 50 by the end of GD3. We will focus our graduate recruitment on emerging skill requirements in our Future of Energy functions, such as hydrogen and methane, as well as key focus areas for GD3 such as cyber E&I and innovation.
- 95 Building on the 166 apprentices we already have (40 in Scotland, 126 in Southern); we will also continue to expand and strengthen our early careers programmes with 150 additional recruits across our apprenticeship, graduate and trainee populations. We will also introduce new apprenticeship routes such as: mentoring and coaching; people manager; cyber security; learning and development; and improvement and change leaders.
- 96 As discussed in Section C.5, to attract applicants from the widest possible pool of candidates, we have also been establishing a STEM ambassador community to promote careers with SGN through schools, colleges and universities.

C.7 Ensuring the health, safety and wellbeing of our workforce – General

- 97 Delivering gas safely is our top priority and that of our customers. We will, therefore, maintain and build upon our culture where safety and wellbeing of our workforce is paramount, ensuring that all employees return home safely every day, where leadership is dedicated to promoting a safe work environment and where we provide the necessary resources to achieve this goal. This applies universally.
- 98 We launched our PROTECT brand in 2023, with a focus on 'Zero Harm, Zero Exceptions' to work towards the objective that we should be operating as an organisation without harm to the public or ourselves every day, all the time. We are measuring our progress using the Hudson Safety Cultural Maturity Model where independent experts assess our cultural safety across six parameters: Leadership and Commitment; Management Behaviours; Employee Responsibility; Engagement in Safety Improvements and Communication; Education; and Resources. We were independently assessed in 2024 to be at level 3 and we will strive to continually improve this through GD3.
- 99 For GD3, an important part of ensuring the health and safety of our workforce, we will be implementing the new Fatigue Management Requirements from the HSE to change our working patterns to reduce the risk of fatigue for shift workers. Broadly, we need to move from shifts of up to 16 hours, to shorter shifts that target a maximum working day of 12 hours by the end of GD3. (We provide further detail in the Section C.8 below).
- 100 In this subsection we set out the other components of our GD3 plan to ensure the health, safety and wellbeing of our customers.
- 101 Overall, we are proud of our health and safety record. We routinely track a number of leading and lagging safety indicators. Key steps in our workforce strategy to maintain and enhance health, safety and wellbeing are:
- (a) Ensuring compliance with all local, national, and international safety regulations and standards (e.g. OSHA, EPA, relevant gas safety regulations), including the new Fatigue Management Requirements from the HSE; conducting regular audits to verify compliance and address any gaps;
 - (b) Implementing a robust risk assessment process to identify potential hazards in all operations;
 - (c) Utilising a systematic approach to risk management, including:

- Risk Identification: Regular site inspections and employee feedback.
 - Risk Analysis: Evaluate the severity and likelihood of risks.
 - Risk Control: Develop strategies to eliminate or mitigate identified risks.
- (d) Developing a comprehensive training program for all employees covering:
- Safety procedures and emergency response protocols.
 - Hazardous materials handling and personal protective equipment ('PPE') usage.
 - Mental health awareness and support.
- (e) Implementing the EUSR Safety Health and Environmental Awareness gas course for any employee who requires access to operational sites. (It is currently only run for Repair employees.)
- (f) Conducting regular drills and refresher courses on safety-related and safety-critical learning;
- (g) Implementing wellness programmes that include:
- Mental health resources (counselling services, stress management workshops).
 - Physical health initiatives (exercise programs, health screenings).
- (h) Fostering a supportive environment that encourages open communication about wellbeing;
- (i) Establishing a clear incident reporting protocol that encourages all employees to report near misses and accidents;
- (j) Conducting thorough investigations of all incidents to identify root causes and implement corrective actions;
- (k) Sharing lessons learned across the organisation to prevent recurrence;
- (l) Developing and maintaining an emergency response plan tailored to various potential incidents (e.g. gas leaks, explosions);
- (m) Ensuring all employees are trained on emergency procedures and conduct regular drills to test response plans;
- (n) Fostering open lines of communication regarding safety and wellbeing between management and employees;
- (o) Implementing regular safety meetings and feedback sessions to discuss concerns and improvements;
- (p) Creating a safety committee comprising employees from various levels to promote engagement and accountability;
- (q) Maintaining key performance indicators ('KPIs') to monitor safety performance and wellbeing initiatives. We have a number of leading⁵ and lagging⁶ safety metrics that we track continuously;
- (r) Reviewing and updating the strategy regularly based on feedback, incident reports, and industry best practices; and
- (s) Encouraging a culture of continuous improvement, where employees are motivated to contribute to safety enhancements.

⁵ Leading safety indicators include: (i) Safe Days (broadly, the number of days without incident), (ii) hazard and near miss reports, (iii) Team managers' visibility, (iv) executive engagement on health and safety, (v) senior leadership visibility and (vi) Visibility of our Leadership Community Group.

⁶ Lagging safety indicators include (i) Incident reporting (from our "Velocity" reporting and investigation system), (ii) accident frequency rates, (iii) Total Recordable Injury Rates, and (iv) road traffic collisions.

C.8 Ensuring the health, safety and wellbeing of our workforce – HSE Fatigue Management Requirements

102 As noted above, we are committed to reducing the hours our frontline operatives work. In line with the new HSE Working Time Directive, we will ensure we move from the existing 16-hour working restrictions to an equivalent 12-hour restriction during the GD3 price control period, bringing us in line with the learnings from similar safety-critical industries.

103 We are committed to looking after the health and safety of our employees and customers by targeting a maximum working day of 12 hours a day by the end of GD3. No front-line employee in a safety critical role should work more than 12 hours in a single 24-hour period, have an appropriate level of rest between shifts and should not work more than 60 hours in a given week (referred to generically as 12 hours). We will need to recruit circa 514 FTE employees in frontline roles to maintain our emergency response times in-line with our Licence obligations and carry out emergency repairs.⁷ In September 2024, we submitted a re-opener to support the full implementation of this new policy by the end of GD3,⁸ which is reflected in our workforce strategy.

104 To deliver the 12-hour working requirement in a reliable and robust way, we have established a comprehensive programme of work that includes:

- (a) Planning and forecasting – the move to 12-hours will have significant impact on the number of employees required to deliver a set workload and must be sensitive to potential peaks in workload and the skill sets required to deliver;
- (b) Recruitment and training of apprentices and trainees – it can take between two and three years to fully train people required to fulfil these roles and we are already underway with an enhanced recruitment and training programme that will ensure we have the people and working practices embedded;
- (c) Updating employee expectations – careful consideration needs to be given to our employees' terms and conditions due to the impact of an individual's personal circumstances; and
- (d) Additional activities – there are additional costs associated with a larger frontline workforce both in terms of additional personnel (supervisors, managers and business support function) and tools, equipment and fleet.

105

[REDACTED]

[REDACTED]

⁷ [REDACTED]

⁸ [REDACTED]

[REDACTED]

106 We have, therefore, structured this subsection as follows:

- (a) First we provide the salient background for the new Fatigue Management Requirements from the HSE;
- (b) Then we provide detail on how we plan to implement the changes needed to deliver the 12-hour working requirement; and
- (c) Finally, we set out the efficient costs over GD3.

Salient background for the new Fatigue Management Requirements from the HSE

107 The approach to the effective management of fatigue has also been evolving over time as the HSE and companies operating safety-critical roles build knowledge and experience, sharing learnings from events which have not had the intended outcome. The basic principles of health and safety legislation are set out in Sections 2(1) and 3(1) of the *Health and Safety at Work etc. Act 1974* ('HSWA'). This places general duties on employers to reduce risks so far as is reasonably practicable, including risks arising from staff fatigue.⁹ Section 7 of the HSWA requires employees to co-operate with their employer by, for instance, ensuring they are adequately rested to do their work safely, and by reporting any concerns.

108 In addition, the *Management of Health and Safety at Work Regulations 1999* Section 5 requires that "(i) every employer shall make and give effect to such arrangements as are appropriate, having regard to the nature of his activities and the size of his undertaking, for the effective planning, organisation, control, monitoring and review of the preventive and protective measures".¹⁰

109 While these are not new legislative requirements, they provide the contextual basis under which fatigue management should be considered, and this contextual basis is informed in part by lessons from other industries. These include:

- Rail – The Railways and Other Guided Transport Systems (Safety) Regulations 2006;
- HGV driving hours;
- West Midlands Fire Service;
- Office for Nuclear Regulation;
- Police; and
- Airline Pilots.

110 At the time of the GD2 business plan submission, there was a clear expectation from the HSE that it was difficult to establish how the duties set out under the HSWA and the Management of Health and Safety at Work regulations could be satisfied if safety-critical staff in front line roles were working shifts of greater than 16 hours. In addition, there was an expectation that gas networks would be expected to come into line within the other industries over time, although the precise change required was not fully defined at the time of the GD2 business plan submission. It was on this basis that we submitted a request for this uncertainty to be managed through a re-opener during GD2, to enable the recovery of efficiently incurred costs necessary to adhere to the HSE expectations subsequent to the GD2 business plan final determination.

⁹ Fatigue is defined as "... a decline in mental and/or physical performance that results from prolonged exertion, sleep loss and/or disruption of a person's 'internal clock' Health and Safety Executive, Human Factors: Fatigue. Human factors/ergonomics - Fatigue (hse.gov.uk)

¹⁰ The Management of Health and Safety at Work Regulations 1999 (legislation.gov.uk)

111

112 In January 2024, it was agreed with Ofgem that it would be advantageous for the re-opener window to be postponed until September 2024 to enable GDNs to work collectively to establish a consistent approach to the implementation of fatigue management requirements. Collaborative discussions have taken place between the GDNs to ensure a consistent interpretation of the HSE guidance. This approach has enabled us to align our implementation strategies and ensure consistent working practices, to assist Ofgem in its network performance comparisons and, also, to ensure a standardised approach across the industry workforce. A cross-GDN working group was established to agree on common principles considered to meet the HSE fatigue requirements and agree on a common approach to the coverage of costs within the re-opener as set out under the Licence.

113 These working groups defined a common target state, which is bound by three constraints:

Constraint 1 – A maximum of 12 hours worked in a 24-hour period:

- This should include travel time between home and first job / depot and return; and
- This should include time spent on call-out and associated travel time.

Constraint 2 – A maximum of 60 hours worked in a 7-day period:

- Subject to the same inclusions / exclusions as set out under Constraint 1.

Constraint 3 – A minimum of 11 hours of consecutive rest:

- An expectation that there should be 11 hours of consecutive rest between shifts, with a 2-day rest period within 14 days;
- The boundary here is less clearly established and considered to be dependent on the nature of interruptions, compensatory rest provided in the event of a call out, and the effectiveness of the fatigue management systems in place; and
- As discussed in Section 3 above, enforcement of this constraint is currently on hold with the HSE, however, we anticipate it will be pursued and, furthermore, consider it good practice to include.

114 There are exceptional circumstances in which the above constraints can be exceeded, but this should be based on the nature of the exceptional event (i.e., a risk-based approach) and accompanied by appropriate fatigue management systems.

[Redacted content]

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C.9 Developing common metrics for measuring and monitoring workforce resilience

121 Metrics are important in all aspects of business. With respect to our Workforce and Supply Chain Resilience Strategy, we note that Ofgem has asked specifically about our plans for developing common metrics for measuring and monitoring workforce resilience.¹¹

122 There is a range of factors that influence how resilient a workforce is, including:

¹¹ See, for example, "RIIO-3 Business Plan Guidance", Ofgem, 30 September 2024, para 5.27

- Their knowledge of health and safety issues (a workforce that is able to work safely and efficiently is more resilient than one that cannot);
- The training they have received (ensuring that our employees receive the right training is key to ensuring a resilient workforce);
- Being able to deploy suitably qualified and experienced staff with the right skill sets (understanding what skills are available to deploy makes for a more resilient workforce, and it also helps us understand who is best placed to be promoted when vacancies arise); and
- When employees choose to leave us, understanding why they leave (as a higher retention rate will be commensurate with a more resilient workforce).

123 SGN is working with Energy & Utility Skills, as part of the National Skills Academy, to develop a workforce resilience measurement framework for implementation across both Gas Transmission and Distribution. During early consultation, metrics have emerged with others still to be developed and refined. SGN are also active members of the Energy & Utilities Careers and Jobs Forum, where we monitor workforce demand estimates and work to support by creating consistency across sector attraction and retention strategies.

124 Three broad areas have been identified as contributing towards workforce resilience: 1. attraction, 2. skills development, and 3. retention. For 2024, they have created nine metrics under the first two broad areas as well as identifying workforce characteristics (metrics for retention are being reviewed for 2025), which are set out below:

- Workforce characteristics:
 - Percentage of the workforce that are male;
 - Percentage of the workforce from an ethnic minority background;
 - Percentage of the workforce that are non-UK citizens;
 - Percentage of the workforce aged 16 to 24; and
 - Percentage of the workforce aged over 60.
- Resourcing:
 - Average number of applicants per vacancy;
 - Average number of days to fill a vacancy;
 - Percentage of vacancies filled via the external labour market or via internal promotion and progression; and
 - Percentage of the workforce that are on a structured training programme.
- Attraction:
 - Median retirement age;
 - Annual voluntary staff turnover rates;
 - Average length of service upon leaving voluntarily less than one year, 1-5 years, 6-10 years & more than 10 years;
 - Reason for leaving retirement/voluntarily leaving the labour market;
 - Another job within the sector;
 - Another job in a different sector; and
 - Involuntary (e.g. redundancy, dismissed, ill health, death in service, etc).

125 Through Energy & Utility Skills, we are members of the Skills and Education Policy Forum which provides an enduring sector forum for energy and utilities employers to work across the UK in order to:

- (a) Understand and inform the development and reform of UK apprenticeship and vocational education policy, and to be responsive to the current and future needs of employers in the sector;
- (b) Identify the sector's requirements of the apprenticeship and vocational education reforms and secure the right outcomes for the sector;

- (c) Influence the future apprenticeship design and needs, specifically for green skills in response to the net zero ambitions of Government and devolved administrations;
- (d) Provide the means to engage collectively with Government and agencies on skills issues – in particular Skills England, the Department for Education and their functional equivalents in the devolved nations;
- (e) Understand, influence, and optimise proposed changes in the new Growth & Skills Levy; and
- (f) Provide a forum to discuss the delivery of sector apprenticeships and vocational education in order to address any risks and drive continuous improvement.

126 We are also active members of the Energy & Utilities Careers Forum, where we monitor workforce demand estimates and work collectively with other members to support recruitment by creating a sector attraction and retention strategy.

127 As might be expected, we have an existing suite of metrics that covers these. Such metrics are important as they allow us to build an 'HR dashboard', to understand our workforce better, to provide 'leading indicators' of when action is required to ensure the resilience of our workforce, to allow us to undertake skills gap assessments, and to identify specific high-risk roles.

128 For ease of reference, we have grouped our metrics into three categories:

- (a) Workforce characteristics and resourcing;
- (b) Skills development; and
- (c) Retention.

129 We briefly summarise our plans for these metrics below.

130 With respect to workforce characteristics and resourcing, a key resilience driver is their level of knowledge and skills:

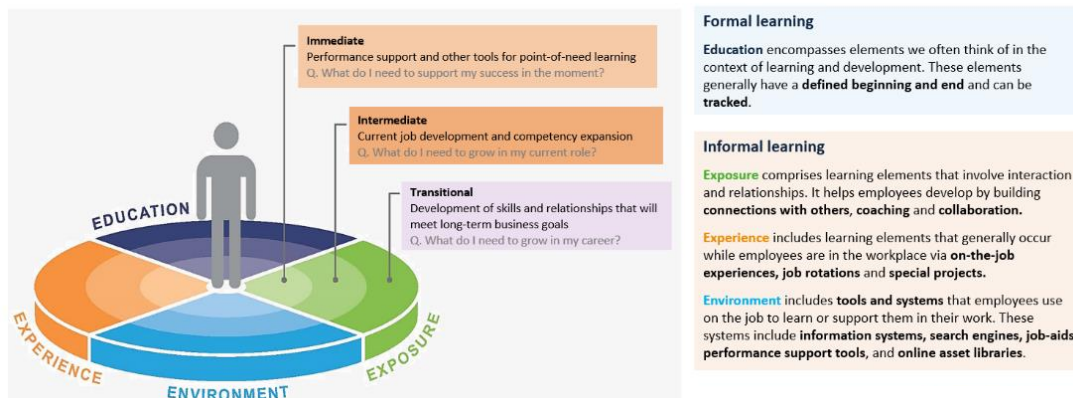
- Workforce competence – we inspect our workforce on critical tasks ensuring the confidence and quality of work at all times. This is demonstrated through observation and knowledge with a coaching and referral process for those who require additional support; and
- Career – we can measure the number of people moving laterally across the organisation identifying where we can use transferable skills across different departments.

131 With respect to skills development, a key resilience driver is their level of knowledge and skills. We are in the process of transitioning from a training culture to a learning culture that enables a learner-centric approach where our people can access learning at the point in time they need it, as shown in Figure 3 below.

Figure 3: SGN's continuous learning model

Learning in the Flow of Work

The continuous learning model aligns with worker preferences and helps organisations rapidly develop workers



Source: SGN

132 It can be seen from the figure that there will be a balance of education with formal instructor-led training mixed with informal exposure, experience and environment where employees can pull learning to suit their learning needs.

133 We record learning via a Learning Management System (LMS). All training events, digital learning and learning materials are accessed in real time by the end user. The LMS is configured to our roles and skills enabling monitoring of mandatory training for every individual. We have a network of Competency Assurance Leads in each region who use the data to plan and book future courses ensuring our workforce remains compliant.

- SGN training data will be self-service through reports and dashboards highlighting mandatory training compliance, skills, expiry and workforce competence. There will be transparency in the data held and what career paths are available to all levels for both upward and lateral moves;
- Skills – we will work to identify the skills required across our organisation and the relevant learning. We can measure the number of people we have for the skills required down to individual, business area and geographical location.;
- Safety critical training – we can measure training based on utilisation of courses and training record compliance ensuring we can plan ahead eliminating the risk of expiry. We can measure effectiveness by the reduction in incidents and an increase in the safe days across the organisation;
- Training completions – we can measure seat utilisation and completions of all our learning whether it is a formal instructor led course or a view on digital learning via our People Portal; and
- Training record compliance – we must ensure all our front-line engineers have approval to operate on our network. This is managed proactively through certifications linked with refresher periods and expiry dates.

134 With respect to retention, a key resilience driver is understanding factors that may cause employees to choose to leave us. Specific metrics in this area are:

- Retention – the recruitment team will measure leavers against length of service to understand at what point someone is choosing to leave; and
- Reasons for leaving – understanding the drivers for people leaving and start to use this to make changes.

C.10 Quantifying the level of workplace shortage at a sector level

135 A report by Energy & Utility Skills has estimated that there are 23,500 people employed as at September 2024 in the gas networks industry. They estimate that by 2030, this is forecast to increase to 39,300¹² (i.e. an increase of 15,800 people, or 67%) due to the requirements for the production, transmission and distribution of hydrogen. Table 4 sets out the estimated number of total jobs required in the gas network sector in 2024 and 2030.

Table 4 – Estimated number of total jobs required by the gas network occupation in 2024 and 2030

Skill level	Standard Occupation Classification	Total employment	
		2024	2030
RQF 7-8 SCQF 11-12	11 - Corporate Managers and Directors	2,300	3,700
	12 - Other Managers and Proprietors	700	900
RQF 6 SCQF 9-10	21 - Science, Research, Engineering and Technology Professionals	1,900	3,400
	24 - Business, Media and Public Service Professionals	1,400	2,700
RQF 4-5 SCQF 7-8	31 - Science, Engineering and Technology Associate Professionals	800	2,100
	33 - Protective Service Occupations	0	0
	34 - Culture, Media and Sports Occupations	0	100
	35 - Business and Public Service Associate Professionals	2,400	4,600
RQF 3 SCQF 6	41 - Administrative Occupations	2,000	3,300
	42 - Secretarial and Related Occupations	200	300
	51 - Skilled Agricultural and Related Trades	100	100
	52 - Skilled Metal, Electrical and Electronic Trades	1,200	1,900
	53 - Skilled Construction and Building Trades	4,000	6,200
RQF 2 SCQF 5	71 - Sales Occupations	400	700
	72 - Customer Service Occupations	3,300	5,100
RQF 1 SCQF 4	81 - Process, Plant and Machine Operatives	1,300	1,800
	82 - Transport and Mobile Machine Drivers and Operatives	1,000	1,700
	91 - Elementary Trades and Related Occupations	0	0
	92 - Elementary Administration and Service Occupations	400	700
Gas networks		23,500	39,300

Source: Energy & Utility Skills, Workforce demand estimates – 2024 to 2030. Summary Report. September 2024.

136 The skill level of RQF 7-8 is equivalent to a master's degree or doctorate, and RQF 1 is equivalent to GCSE grades D to G. The figure above confirms that people across all skills levels are required in gas networks and it is therefore important we do our part in addressing the potential workplace shortages at a sector level.

137 Our workforce is aging, which will likely result in an increase in new hires, and this will be coupled with reduced working patterns and fewer opportunities for overtime. We will need to increase recruitment and retainment efforts as we will also be losing some of our aging workforce who may choose to retire leaving behind a less experienced workforce. Where SGN is able to recruit suitable candidates it therefore important that we look to mitigate against any disengagement by ensuring that any knowledge is passed on from existing to new employees and we support new employees to integrate into the company culture and meet performance expectations. During GD3, we plan to address these challenges in two main ways, namely by:

¹² Energy & Utility Skills, Workforce demand estimates – 2024 to 2030. Summary Report. September 2024.

- (a) Creating a skills-based organisation; and
- (b) Identifying skills trends through forecasting.

138 We set out more detail in this regard below.

Creating a skills-based organisation

139 We will identify the skills across the capabilities that are required to effectively run and manage the company in the future. It is important for us to develop a skills taxonomy, that is, a structured framework that categorises and organises skills and competencies across various fields. Once developed, we will use AI to link skills to our job descriptions. We will use the same AI technology with inputs of existing skill selections and CVs to identify the best people for the task required.

140 The implementation of this skill-based approach supports our transition to a learning culture. This enables our employees to learn and develop at their own pace and reflect on their own skills, as we recognise our employees' varied background of skills and knowledge that may have been acquired prior to joining our company. As an example, our current Learning Coordinator holds a master's degree in occupational psychology and has expressed an interest in using this in their work. We partnered this individual with our Human Factors team who will be supporting them on small projects and focus groups. Understanding this individual's knowledge and skills enables us to put them on a unique developmental pathway and provide them with coaching in the relevant teams to grow their interest in this area. In this way, we are not only able to support the individual, showing that we believe in their ability, but we also strengthen our retention rate as they are less likely to be dissatisfied with their work. Our preliminary research suggests that there are numerous examples of other employees in the organisation with hidden skills that we can harness in the future.

Identifying skills trends through forecasting

141 The online assessments we use, for example for Emergency Procedure and Safe Control of Operations training can also be used to identify skills and knowledge gaps across our company. While the results are presented to us as pass or fail, meaning we have oversight of the pass and failure rates, we also have the ability to see the trends in questions that people answer incorrectly. This enables us to focus the learning we provide to individuals who require it, to a more personalised level. We can also identify trends at an individual, workstream or regional level.

C.11 Engaging with the Government

142 It is important for us to maintain a dialogue with the Government over our workforce plans. We aim to be involved at every stage of the redesign of the Network Construction National Vocational Qualifications. We will identify whether the current curriculums we offer to our employees are fit for purpose in a future environment where safety is paramount, but the needs of our learners is not compromised. As discussed in the previous Section C.10 *Quantifying the level of workplace shortage at a sector level*, we will use skills rather than roles to build capability.

143 For GD3, we have identified some key asks brigaded under 'vulnerability' and 'skills' which have allowed us to position SGN as a trusted and credible voice within the energy sector and extend our reach and influence with our key stakeholders, which include Energy & Utility Skills and the Minister of State for Skills Apprenticeships and Higher Education.

144 Under vulnerability, our key asks are:

- (a) The continuation of VCMA funding in GD3;
- (b) For Ofgem to reconsider how funding is allocated based on need as opposed to network size;
- (c) An introduction of a social tariff to support vulnerable customers;
- (d) An extensive rollout of energy efficiency measures across the UK; and
- (e) A promotion of general taxation as the most progressive way of financing the transition.

145 Under skills, our key asks are:

- (a) A reformation of the Scottish apprenticeship levy;
- (b) The UK government introduces a Just Transition tsar or undertakes a review into protecting oil and gas workers through the energy transition;
- (c) A commitment from the UK Government and Scottish Government to fund and support green gas technology and solutions;
- (d) Pathways for 16 to 24 year olds to move into engineering roles;
- (e) Higher numbers of EDI within the energy sector; and
- (f) That we produce a number of recommendations for government to address the skills gap.

146 Our actions thus far and going forward to address these key asks are set out in Table 5.

Table 5 – Our actions to address the key asks

	Vulnerability	Skills
Q3 2024 (July to September)	<p>Site visits with new MPs and partners to showcase our work supporting vulnerable customers across our network.</p> <p>Promotion of our vulnerability work at SNP conference through one-to-ones and engagement with the vulnerability team.</p>	<p>Bi-lateral with Chair of SEAB Skills Sub-Committee (Scottish Government).</p> <p>Engagement with relevant politicians at the SNP conference.</p> <p>EUSP Skills Annual Conference attended by CEO and SGN HR.</p>
Q4 2024 (October to December)	<p>Roundtable event discussing fuel poverty with key industry partners, MPs/MSPs.</p> <p>Meeting with Committee of Fuel Poverty chair, Caroline Flint.</p> <p>Total Politics article setting out vulnerability asks of the Government.</p> <p>St Andrew’s Day Reception, House of Commons – vulnerability partners from Scotland invited.</p>	<p>EUSP roundtable with Minister Jacqui Smith, Minister for Skills, Apprenticeships, and Higher Education</p> <p>St Andrew’s Day Reception, House of Commons – Scottish skills partners to be invited.</p> <p>Meeting with UK Government Skills Minister to discuss funding challenges for apprenticeship levy across both our networks.</p>
Q1 2025 (January to March)	<p>Consider budget submission around the need to protect vulnerable customers e.g. supportive statement on social tariff.</p>	<p>Meeting with Scottish Gov Minister for Skills to discuss H2 skills.</p>
Q2 2025 (April to June)	<p>Engagement with Scottish Political parties to discuss 2026 manifestos.</p>	<p>Engagement with Scottish Political parties to discuss 2026 manifestos.</p>

Source: SGN

147 As can be seen in Table 5, we are actively engaging and working with the Government over our plans.

Section D Supply chain resilience strategy

D.1 Supply chain resilience strategy background

148 In GD2 we experienced significant challenges with our supply chain, particularly on retaining and attracting resource to deliver our Repex programme. This introduces cost pressures driven by external contractor costs due to: (i) a more competitive market to attract contractors; (ii) the complexity of the type of workloads with adverse network conditions which is explained further within our Network Asset management Strategy (SGN-GD3-SD-06); and (iii) due to having challenging GD2 allowances to secure the contract labour to deliver.

149 The complexity factors we are most concerned about are projects that involve ductile iron, cross road services, long services and road crossings. This is because such projects take longer to complete and can require more resource. As we move towards the end of the Repex programme we anticipate these factors will be more prominent than in our historic activity, as explained in Document SGN-GD3-ECR-01: MJM Report.

150 Contractors in the GB supply chain are fully aware of the challenges and complexity involved in completing this HSE mandated programme, and as such there is much greater cost pressure in the remaining seven years that needs to be taken into account in any cost review.

151 The increasing cost of delivering our Repex programme based on the real contractor market rates received through more recent tenders, [REDACTED]

152 We will deliver value to customers through efficient investment and delivery, as well as innovation improvements and efficiencies that benefit customers. In line with this, we have made firm Commitments that in GD3:

- We will be ranked in the top 3 for efficiency for both our networks in a well-calibrated cost assessment that reflects the efficient costs of working in our network areas; and
- We will deliver more than £89m of operational savings through core innovation across GD3.

153 To meet these Commitments, we will need to be efficient in the activities that we carry out in house, but we will also need to ensure that (i) we use our supply chain effectively and (ii) that our supply chain is, itself, efficient.

154 The nature of our business means that we predominately use local supply chain for our works and services. However, in recent years, the UK has been largely stagnant from a productivity viewpoint. For example, The National Institute for Economic and Social Research (NIESR) notes that:

*“For more than a decade, the UK has struggled with a persistent issue – low productivity increases. Despite the importance of productivity as a key driver of economic growth and living standards, the UK’s output per hour worked has been essentially flat-lining since the financial crises of 2008-09”.*¹³

155 Similarly, after accounting for the effects of capital investments, the ONS’s estimates suggest that the UK’s multi-factor productivity (MFP) growth has only been equivalent to 0.2% p.a. between 2008 and 2022.¹⁴ We anticipate that this position will persist, making it particularly challenging to meet our GD3 Commitments. As a result, we recognise that we need to be strategic and astute to achieve efficiencies above the UK level.

¹³ <https://www.niesr.ac.uk/blog/uk-productivity-paralysis#:~:text=For%20more%20than%20a%20decade,financial%20crises%20of%2008%2D09>.

¹⁴ Source: “Growth accounting, multi-factor productivity estimates, UK: April to June 2023”, ONS, 9 November 2023, Table 7 estimates that, MFP across all sectors (with 2019=100) is 99.6 in 2008 and 102.3 in 2022. This is equivalent to an annualised growth of $(102.3/99.6)^{(1/14)} - 1 = 0.2\%$ p.a. over a 14-year period.

156 The correct contracting strategy alongside a streamlined supplier base can bring multiple benefits such as improved quality control, improved risk mitigation and flexibility to meet business demand. Hence, we strive to create an efficient and sustainable supply chain. A key tool in this process will be ensuring that we maximise the competitive incentive for our suppliers to deliver a high quality of service that is value for money.

157 Our strategy focuses on improving supply chain resilience, reducing inefficiencies and optimising cost management, all of which are critical components of our transformation efforts. It specifically addresses the ongoing goal of building a robust, future-proof supply chain that can adapt to changing market conditions and regulatory demands. [REDACTED]

[REDACTED] The strategy also supports our long-term financial goals and addresses key regulatory requirements by ensuring that the company remains compliant.

158 Our supply chain resilience strategy is set out as follows:

- (a) Creating long-term capacity (Section D.2); and
- (b) Maintaining maximum competitive tension (Section D.3).

159 We also set out two worked examples of procurement and contracting challenges which were not present during the setting of GD2 (Section D.4).

D.2 Creating long-term capacity

160 We use historical network data from both GD1 and GD2 to determine the materials and resources required to ensure a sufficient level from the supply chain is available. This data, combined with detailed network activity productivity analysis and topological information allows us to model the productivity of projects at the activity level. In this way, we can accurately determine the project resource and material requirements. However, we realise that there has been a significant increase in the cost of labour and materials, with further cost escalations expected. We therefore need to address both these cost increases for GD3 to meet our regulatory and operational targets.

161 To address long-term issues with the supply chain, we will be:

- (a) Mitigating supply chain pressures;
- (b) Collaborating with industry and government bodies; and
- (c) Developing UK supply chain capabilities.

Mitigating supply chain pressures

162 We will need to take a strategic approach to mitigating supply chain pressures, and our proposed GD3 approach is as follows:

- (a) Building relationships: establishing and maintaining strong relationships with our suppliers is critical to ensure sufficient materials and services are secured. Our success relies heavily on the efficiency and effectiveness of our suppliers. This makes contract and supplier management critical especially within the delivery of mains replacement workloads. In recent years, we have looked to invest and grow in this area to adopt a structured and collaborative approach to foster long-term partnerships. We have worked with external consultants to redesign our approach to supplier management in preparation for GD3. The creation of a new, centralised Supplier Management team will:
 - Address gaps identified in existing supplier management processes;
 - Maintain collaborative relationships with supply chain partners; and
 - Support in the mitigation of wider supply chain pressures.

This team will focus on four key areas:

- Commercial management, to ensure that all financial aspects of supplier relationships are optimised, including cost control, budgeting and financial risk management. We will also ensure we achieve value for money while maintaining a stable supply chain;
 - Contract management, in the drafting, negotiation and monitoring of contracts to ensure compliance and alignment with our strategic goals. We will avoid supply chain disruption by effectively managing contract renewals, amendments and contract terminations;
 - Performance management, to track and evaluate the performance of our suppliers against agreed metrics and service levels. We will use data-driven insights to identify areas of improvement, recognise high-performing suppliers and address any issues promptly to ensure continuous improvement and delivery; and
 - Building and nurturing strong, collaborative relationships with key suppliers by maintaining regular communications, performance reviews and arranging collaborative sessions to foster trust and mutual benefit.
- (b) Slot booking: our third-party logistics has a booking process for goods in our two distribution centres. The supply chain complies with this process by submitting time slot requests in advance of delivery. The benefits of this include increased efficiency, better resource management and inventory management, and cost savings by reducing delays;
- (c) Pre-ordering: purchase orders are generated through our Oracle-based planning engine. This streamlined purchasing processes reduces the time and resources that are required to be spent on order management and allows employees to focus on other important tasks. Should any ad-hoc demands arise, we also have the ability to order these through the Enterprise Resource Planning software we use;
- (d) Buying in bulk: our minimum order quantities involve a mutual agreement between ourselves and our suppliers. These orders are placed on a four-to-six week horizon which is beneficial to us as this timeline allows for better demand forecasting and reduced stockouts and overstocks, but is also beneficial to our relationship with our suppliers as it fosters better communication and trust; and
- (e) Strategically increased stock levels: we will hold increased inventory levels prior to known seasonal increases in demand. The levels required are based on calculated consumption rates. However, to ensure the risk of overstock is minimised, increased stock holding is subject to approval from our executive cash committee.

163 We will test and evaluate the effectiveness of the stressed exit plans internally with our stakeholders by mapping the impact to us in regard to activities disrupted, expected losses and reputational and/or regulatory damage which may occur in near future.

164 The action plan, and the responsible owner, based on each timeline will be communicated across our business. This will help us determine the manpower required to provide internal support in the absence of the supplier, technology or product requirements needed and what information we would require access to and how we would receive it for the continuation of services.

165 This helps to identify gaps and align appropriate actions, improve response capabilities, and ensure that employees are prepared to execute the plan effectively. Unstressed exit plan ensures it complies with legal requirements, contractual obligations, and regulatory standards to avoid legal disputes and penalties. The stressed and unstressed plans will be captured annually for strategic, critical, and critical outsourced suppliers. Our Business Continuity software called Resilience will capture departmental Business Continuity Management (BCM) plans and help us to keep everything moving in line with the annual BCM Lifecycle.

166 Our Third-Party Risk Management (TPRM) Policy will monitor and track critical and strategic suppliers to ensure that the business can continue its critical operations and services in the event of disruptions or emergencies.

167 Our Third-Party Risk Management governance meetings held either monthly or quarterly (with senior representation) will provide the basis to identify, assess, monitor, and manage the risks associated with third-party relationships.

168 Supplier risk assessments and categorisation can enhance our resilience against supply chain disruptions due to business failures and helps to manage supplier risk effectively. A failure to do so can lead to operational disruptions, reputational damage, and financial loss. The introduction of a supplier treatment strategy will include annual audits, annual business continuity plans, ongoing financial due diligence and annual tracking of supplier's sub-outsourced suppliers'.

Collaborating with industry and government bodies

169 Collaboration with industry and government bodies provides valuable opportunities to add further value from our procurement and supply chain processes. These include:

- (a) The ability to benchmark our processes against best-in-class processes (to the extent that they are not already best in class) to the benefit of our customers, and where we are already best in class, to set the standard for the industry, to the benefit of customers in general;
- (b) The ability to share procurement related learnings;
- (c) The ability to collaborate to address common supply chain challenges efficiently (because our peers share similar supply chains), particularly with respect to sustainability within our supply chain;
- (d) Providing greater standardisation in procurement processes that suppliers face, thereby reducing their bidding costs allowing them to offer better value for our customers; and
- (e) Engaging with our suppliers to improve our performance in relation to the sustainability targets.

170 Specifically, we regularly collaborate with other GDNs to assess our relative competitiveness and share procurement related learnings to inform our strategy. Typically, we assess relative competitiveness through the execution of a benchmarking exercise against a prescribed suite of goods and services. As rates /prices cannot be shared, the analysis will consider invoiced related costs such as a basket of goods or delivered mains replacement per kilometre. The primary objective intention of this exercise is to determine to what extent each party is most or least competitive. This knowledge would then allow them to assess whether they are employing best practice, and to revise their procurement approach if not.

171 In addition to benchmarking the efficiency of our procurement processes, we share relevant learnings related to procurement. Additional content discussed includes details on how markets were approached, how resultant frameworks were awarded, and how post contract management processes are being administered. This information is used for comparison purposes, learnings, and potential management of future collaborative procurement events. Details on category spend segmentation and team structure are also shared, since these could potentially lead to positive and value adding changes within each procurement organisation.

172 We understand that complex supply chain challenges cannot be solved by individual efforts and that industry-wide collaboration is required. We are working with peers who share similar supply chains and can set common standards and best practices for sustainability performance and allow suppliers to be evaluated on the same metrics. These collaborations help prevent audit fatigue, training redundancy and mountains of paperwork for suppliers working to meet similar requirements from their customers. Working with industry peers is a great way to share knowledge about the sustainability performance of interfacing suppliers.

173 A further advantage in our collaborative approach is that we can provide greater standardisation for suppliers. This has the twin advantages of: (a) allowing suppliers to standardise their bidding and proposal processes, leading to lower overheads and better prices for our customers; and (b) allowing a shared focus on sustainability within our supply chain, and indeed, a shared focus on other corporate

values. Establishing and communicating expectations through a supplier code of conduct will be a critical step in involving suppliers in our sustainability efforts.

174 In order to meet our Commitments, our plan is to incorporate greater sustainability into the design, procurement, and construction of projects by promoting the selection of suppliers and subcontractors that value sustainability. This includes KPIs built into the tender evaluation process. As part of our continuous improvement, we expect to increase the weighting giving to sustainable metrics in future bids. As part of an early level implementation process, we will engage with our suppliers on the finer details of this. We plan to engage with suppliers representing 80% of our annual spend to capture more data that allows us to monitor our Environmental, Social, and Governance (ESG) targets, particularly during the pre-qualification questionnaire and the invitation to tender stages. The approach will be phased and will include adding contractual clauses that will introduce ESG data reporting requirements. We are committed to set specific targets by engaging with the suppliers during the contract period. A brief roadmap is given below:

- (a) Year 1: agreeing the relevant data to capture and start collecting the data;
- (b) Year 2: continuing to capture the data and integrate this data into KPIs which align with SGN's ESG expectations (the expectations are currently under discussion as we are currently in the process of interpreting data and understanding acceptable thresholds);
- (c) Year 3: setting the relevant targets based on the data collected and the relevant KPIs; and
- (d) Year 4: Implementing and beginning monitoring the targets that were set.

175 We will also engage with sustainability associations, who provide case studies and strategies to improve supply chain sustainability. SGN has also signed up to Supply Chain Sustainability School We provide free access to this school to our suppliers and we encourage them to make use of this facility. The school offers a variety of programmes and courses on ESG topics. SGN will also give suppliers a separate guidance document on the use of this school, which will give details on registration, courses available and training programmes. This is a service that is used across the construction sector and therefore provides us with a wider audience and collaboration opportunities.

Developing UK supply chain capabilities

176 We interact with initiatives to develop UK supply chain capabilities. As an example, through our involvement in the Procurement Leaders community, opportunities often arise to attend the House of Lords where our senior procurement staff can meet a government minister and chief procurement officers at other companies to discuss specific topics e.g. ESG.

177 Additionally, as an emergency response service provider, we must provide a continuously staffed telephone service to enable people to report an escape of gas from a network or from a gas fitting supplied with gas from a relevant network, though we can also provide other continuously staffed means (i.e. a webchat) to enable reporting. The telephone service provided must be contactable within Great Britain by a 0800 telephone number. To this end, Cadent have been providing such services on behalf of the GDNs, including to ourselves, Wales & West Utilities and Northern Gas Networks.

178 The Cadent call-handling telephony contract is due to expire in 2026, and it is now in the process of managing the renewal procurement event. We have recently signed a collaborative procurement agreement along with all other participants directly with Cadent to provide independent assurance under their respective Licence obligations as agreed under the terms of the said agreement. To this end, we, along with others, will participate in a Supplier Briefing Day hosted by Cadent. By working together, we provide a simple and cost effective solution for our customers.

D.3 Maintaining maximum competitive tension

- 179 We use a wide variety of terms and conditions in competition – both in terms of the basis on which it offers access to our networks (e.g. <7bar and >7bar connections) and in terms of our requirements for works, supply of goods and services and professional consultancy. We have developed a wide range of template terms and conditions that we believe to be in line with the market. Standard forms of contractual documentation are used wherever possible. For example, we have moved to more frequent use of the NEC4 suite of documentation for our standard works contracts including our larger scale Repex works.
- 180 Our standard terms and conditions for the supply of goods and services contracts are representative of the market to ensure that we attract interest and maintain competition in the market. Understanding the market in the first instance allows us to determine whether the market is competitive and thus we are able to leverage greater value for customers or if this rests with our suppliers. In addition, there are some markets (e.g. SAAS) who will be unwilling to trade on anything other than their own terms and conditions, but we will always look to ensure that our basic requirements are met to protect the company wherever possible.
- 181 We are subject to procurement law requirements including regulated negotiation and justification of award decisions. This maintains transparency in our process, choice of contract and award decisions and keeps us closer to market standard contracts.
- 182 We regularly engage in Requests for Information and market engagement activities to ensure that ahead of large-scale procurement exercises we understand the market appetite which factors into how technical, commercial and legal requirements are developed. This is evident in a number of events occurring in the business moving forward, e.g. Repex works (and associated services), logistics, and mechanical and civil works. In understanding the market and the appetite for different forms of contract, we will be able to ensure that firstly, we extract value where possible and secondly, we protect our business and consequently the consumer. Resilience requires ensuring that the markets will be willing to engage and tender for work with us, thus maximising competition wherever possible.
- 183 Ensuring efficiency in our supply chain and good value for money from our suppliers is one of the key objectives in our approach to purchasing goods and services from our suppliers.
- 184 In order to address these challenges, we see innovation as a key element to be able to improve the quality of our outputs, improve efficiency and offer good value for money to our customers. We have developed multiple initiatives to ensure we can introduce innovations in the way we work with our supply chain. Specifically:
- (a) We are always trying to identify novel ways of working and our strategy development teams at both a category and sourcing level work to identify new technologies and innovations for the business to consider. We also garner market insights as a key element of our strategy and endeavour to attract new and emerging suppliers and increase tender participation. Where required, we utilise expert agencies such as Gartner to support in this work;
 - (b) We encourage direct discussions through effective supplier management that offer innovative solutions with support from our Operations and Policy teams. Their collaboration is key in assessing the solution in full and for us to consider what potential benefits could be realised, such as the cost or the ease of installation relative to the current materials we use. In all cases where innovative solutions are being considered on our network, support from the Policy team is required with regard to trial execution. We require Geographic Information System compliance confirmation prior to implementation of any new solutions on our network;
 - (c) We are active participants in the Procurement Leaders community as this allows our Procurement and Supply Chain team to gain valuable insights into industry ideas and innovations. We are able to engage with our peers on a diverse range of topics, including: supply chain resilience; ESG;

digitalisation; and artificial intelligence. Previous interactions with the Procurement Leaders community have enabled us to successfully implement innovation projects in tail-spend and rebate management, for example with the trials and subsequent implementation of the Fairmarkit and Enable platforms respectively. Development of these ideas will continue into GD3; and

- (d) As attendees of the annual World Procurement Congress, senior managers from our Procurement and Supply Chain team are exposed to keynote presentations from leaders of renowned global companies. This event provides us with insight into the current procurement landscape and performance metrics, as discussed by Chief Procurement Officers from the world's largest companies. As a result, we are able to network effectively on best practices across both similar and diverse industries.

185 Based on such initiatives, we were able to make a number of changes in the way in which we dealt with our procurement during GD2 and are proposing further changes in our procurement process for GD3.

186 We set out below:

- The key procurement challenges that we faced during GD2 and the measures that we put in place to address them;
- The new initiatives that we are proposing for GD3; and
- How our strategy will help us develop and retain stable and resilient supply chains.

Procurement challenges and GD2 initiatives

187 The asset management approach we have used in current and previous price controls is described in detail within our Network Asset Management Strategy (SGN-GD3-SD-06). This has entailed constructing Repex projects around a 'mandatory' main that must be decommissioned within a specified timeframe, and then combine this with lower-risk mains in the vicinity to build a sensible sized project allowing for a more efficient contracting approach.

188 The size of each project is dictated by financial controls, engagement with local authorities relating to streetworks permits and notices of direction, and project management controls so that we deliver the work as efficiently as possible, while maximising the length of iron mains replaced.

189 This approach, as shown in the MJM Energy – Historical review of Repex report (SGN-GD3-ECR-01), has significantly reduced the risk associated iron mains in an efficient way and, in previous price control periods, we have consistently met or exceeded the targets we have been set. This is further explained within our Network Asset Management Strategy (SGN-GD3-SD-06).

190 However, this approach has resulted in the remaining population of mains being of adverse network configurations, and this makes the replacement projects more complex and increasingly costly to deliver, because they include mains that have been left isolated and now need to be dealt with as a small project in their own right.

191 These complex and smaller projects are less attractive to contractors who will typically require a higher premium to complete them. This will increase costs compared to earlier in the iron mains programme.

192 Faced with these challenges, we found that standard approaches previously used to attract new contractors were becoming ineffective. Moreover, like all other utilities, we are also facing industry headwinds, such as high demand and limited contractor capacity, along with competition for our incumbent supply chain resources. We therefore sought independent feedback from our suppliers and engaged a consultancy firm who worked with our supply chain to find solutions for these issues. As part of this engagement, the consultancy firm:

- (a) Issued desktop questionnaires and followed them up by interviewing our incumbent contractors; and

- (b) Spoke to a number of contractors across different areas of the market to understand what was preventing them from working with us or the gas industry in general.

193 The feedback received indicated that, of the suppliers who were unwilling to work with SGN:

- (a) 42% considered the work we issued for tender to be outside of their strategic focus;
- (b) 20% had no interest in gas works;
- (c) 12% had no interest in working in the South of England; and
- (d) The remaining respondents indicated other reasons, for example that they would prefer to remain with a competitor, or would only work on NEC conditions of contract.

194 Based on the feedback received, we decided to implement several short-term commercial initiatives. These support the retention of incumbent Framework Contractors that were involved in the delivery of the Repex programme so that they could stabilise the delivery of the programme and introduce new contractors.

195 [Redacted text block containing multiple paragraphs of blacked-out content]

[Redacted text block]

196 Through the above initiatives, we addressed the issues we faced during GD2 by introducing and trialling new forms of contract and ensuring that contractors were provided with sufficient clarity on payment of encountered risks, to continue working for us by ensuring that workloads were commercially sustainable. However, they are only effective in the short term. As we prepare to develop our business plans submission for GD3, we have sought to understand how these initiatives benefit us and our contractors and will build these understandings into a new model for GD3. We acknowledge that additional improvements to our procurement process are necessary and in particular that we need to better identify our efficient costs, and provide sufficient information to our suppliers so that we could maximise the effectiveness of competition between our suppliers.

GD3 and the changes in procurement process for GD3

197 In addition to the initiatives described above, we are proposing further changes to our procurement process aimed at creating the necessary conditions to allow effective competition from our suppliers.

[Redacted text block]

There were two particular challenges that we had to address in relation to our GD3 investment programme:

- (a) Extremely high demand for skilled resources and the limited number of contractors that we can engage for these works meant that an immediate re-evaluation of the procurement was required to achieve the targets that we had set for our GD3 Repex programme; and
- (b) We experienced a significant increase in both labour and material costs, with further escalations expected for the GD3 period. These issues needed to be addressed, otherwise we would risk failing to meet our regulatory and operational targets within the GD3 period, with potential consequences for our ability to meet compliance obligations and financial challenges.

198 The challenges raised above were further compounded by the issues we are having in Repex associated with the complexity of the type of workloads with adverse network conditions, this is explained further within our Network Asset management Strategy (SGN-GD3-SD-06).

199 [Redacted text block]

200 [Redacted text block]

[Redacted text block containing multiple paragraphs of blacked-out content]

Outcome of our proposal

201 We are confident that the proposed changes to our procurement process for GD3, combined with the improvements already implemented during GD2, will enable us to deliver the entire scope of our GD3 capital investment programme on time and efficiently. Below we explain why we are confident that the programme will deliver on each of the following areas:

- (a) Embedding the principle of technology agnosticism;
- (b) Committing to the sharing of information; and
- (c) Committing to a tender design and assessment approach.

Embedding the principle of technology agnosticism

202 Technology agnosticism is a principle that prioritises flexibility and adaptability over specific technologies and platforms. This principle requires an openness to different ideas and some examples of how we incorporate this principle into our supply chain are set out below:

- (a) We issue our tenders via Achilles, which is an independent database of suppliers. Suppliers can register on this platform and be visible across all utilities who also use the platform. Suppliers are able to join Achilles at various levels (e.g. Achilles network member plus, UVDB silver plus, verify), with each providing differing access to verification or audit (e.g. in ESG, cyber and quality or health and safety). The most appropriate level may depend on the supplier’s category and spend requirements;
- (b) Our department is now utilising the “Competitive Dialogue” procedure in more instances e.g. IT and logistics, to facilitate a discussion with our suppliers to help improve the development of our requirements. This procedure makes best use of market knowledge which is ultimately included in the final scope of our contracts. Should this process be successful, we envisage using it more widely in the future; and

- (c) Almost all tenders and requests for quotation that we invite for include contracts with exit clauses and terms that ensure a transition to an alternative solution and/or provider is as straightforward as possible.

Committing to the sharing of information

203 We recognise that a Contract Award Notice must be published on the UK Government website for all contracts awarded under UCR16 – this is required under the UK Procurement Legislation. This helps us ensure a fair and transparent tendering process, that all suppliers are treated equally and provides clarity to the market as we share all regulated tender award decisions.

Committing to a tender design and assessment approach

204 Balancing the optimum strategy for any category of spend is based on our understanding of the market in detail and our percentage share. Building a picture of the supplier market across the gas industry or utilities generally helps us to understand our leverage. Building our category strategy helps inform the design of the tender. It should be noted that we have designed a standard tender template for goods, works and services and also for delivering different types of requirements (e.g. one-off works, frameworks, NEC terms and conditions etc.). This makes it easier for our suppliers to routinely deal with us and ensures we have a consistent and robust document.

205 Our strategy will aim to offer the most attractive proposition to the market in order to increase competition and deliver value. For example, our Logistics tender for GD3 will use the competitive dialogue procedure under the UK Procurement Legislation to allow us to take full advantage of market engagement, therefore driving enhanced value and optimum delivery for both the start of GD3 and beyond. Another example is the use of NEC which provides agile and flexible contracts that align with the majority of our requirements and include the ability to amend core clauses to bring in additional risk balanced commercial options needed for differing work types.

206 We align with commercial flexibility by, amongst other things, catering for varying productivity work types, through inclusion of the standard pricing principle of lump sum and re-measurable rates, combined with the options of target cost, and cost reimbursable options. This allows us to have the required flexibility needed to manage uncertainty and risk within a contract and will maximise the likelihood of a sustainable supply chain (both new and incumbent) to be secured. The anticipation of tendering these options earlier in the GD2 price control period may allow some of the expected benefits to be adopted earlier than GD3.

207 Specifically, to the Iron Mains Replacement Programme (for which more detail is provided in Section *D.4 Worked examples of procurement and contracting challenges faced*), in conjunction with new contract and commercial models, we are creating demand planning and forecasting of the remaining replacement projects. This allows an overlay of work type with current external resources and identifies areas and opportunities for growth. This planning and commercial rigour should increase the delivery probability and provide a level of transparency and expectation of works from the required contractor base. This and the additional management and supervision requirements remains a huge challenge for us and other competing GDNs.

208 The assessment approach within our regulated business areas is subject to procurement law requirements that include regulated negotiation and justification of award decisions. This drives a need to be fair and transparent in setting our criteria for qualitative and commercial assessments; assessing bids; and making award decisions. We carry this rigour across into our non-regulated business areas, though we take advantage of any time efficiencies where possible.

209 In all tenders we allow bidders to provide alternate bids should they have ideas which would drive increased value. If these bids meet the original qualitative criteria, they will then be evaluated alongside the 'compliant' bids. This ensures that we maintain flexibility and an openness to new delivery methods and market approaches. Our commercial assessments can be varied and designed to take advantage of the purchase specifics, e.g. we assessed the polyethylene pipe and fittings tender on

an item-by-item basis rather than as a basket of similar goods. Our new logistics tender process for GD3 will include a list of core items and additional bolt-ons that will provide the future flexibility for us to develop our capability in this area, therefore driving further value for the future.

D.4 Worked examples of procurement and contracting challenges faced

210 Since 2021, challenging supply chain and workforce conditions worldwide have made our procurement more difficult. As a way of illustrating this, we have set out two examples below of challenges we are facing now, one from a procurement perspective (the supply of polyethylene(PE) pipes), the other from a procurement and contracting perspective (the delivery of the Repex programme), that were not present when we set GD2. For each example, we explain: the background; the key actions we have taken as a company to mitigate these challenges; and the consumer benefits to these actions.

Procurement challenge: the supply of polyethylene pipes

Background

211 PE pipes are essential to our Iron Mains Replacement Programme, which works to switch ageing iron gas mains with this new hydrogen and biomethane-ready alternative. However, the supply of PE pipes and fittings has created significant and exceptional cost pressures for our company post-GD1. The procurement and price of PE pipes is heavily dictated by the cost of raw materials and manufacturing. Geopolitical pressures during GD2 resulted in high energy-related costs that impacted UK pipe and fitting manufacturers to a large extent and a slow recovery following the COVID-19 pandemic resulted in a global PE resin demand that realised higher costs for all purchasing authorities. During GD2 PE pipe costs exceed inflation by over 25%.

Key actions

212 We implemented two methods to address the rising costs of PE pipes, and other core supplies, as follows:

- (a) A Primary Supplier and Contingent Supplier award strategy which ensures that there is continuity should the Primary Supplier be unable to fulfil the requirements for any reason; and
- (b) A Pipe and Fittings Pricing mechanism which accounts for trends of known industry indices (e.g. ICIS, PPI and ONS DOBX) which ensures that unit pricing is increased or decreased on a bi-annual basis.

213 We note that suppliers have also implemented their own mitigating strategies, such as raw material stock holding in-house and the capability to spot buy resin in addition to contracted purchases.

Creating competitive tension

214 During GD2, we undertook a regulated procurement event to secure PE pipes and fittings for eight years. The outcome and recommendation resulted in three suppliers being awarded framework agreements either as a Primary Supplier or Principal Contingent Supplier. Awards onto the agreement were based on an item-by-item basis for both pipe and fittings and were evaluated on the most economically advantageous tender basis. To assure material supply continuity on all core products, awards were given to a Principal Contingent Supplier, in addition to the Primary Supplier. This means that in the unlikely event that the Primary Supplier is unable to supply for an interim period, orders will be placed on the designated Contingent Supplier until a time where the Primary Supplier is able to recommence supply. This helps to alleviate and prevent instances of stock-outs.

215 For those items that do not have an awarded Contingent Supplier, we will engage Fairmarkit to ensure supply continuity. Fairmarkit is an autonomous sourcing platform which allows us, and other companies, to source more competitively at scale. Due to the likely sporadic nature of contingent supplies, these cost schedules are higher than the Primary Supplier rates to account for any additional overheads associated with the need to manage one-off production runs.

216 For instances where neither the Primary nor Principal Contingent Supplier are able to provide supply, we have generated relationships with other Government Indemnity Scheme compliant suppliers in the market as a final contingency measure. However, we envision this scenario to be very unlikely given the strength of the proposed suppliers.

Managing relationships

217 We have scheduled periodic performance reviews with incumbent suppliers throughout the year. These reviews cover a broad range of operational, commercial and performance related items, and include KPI reporting, trending analysis, sharing PE resin related market insight and unit pricing forecasting. Our Internal Procurement and Logistic teams are also engaged on a weekly basis to address and action the supply, demand and system set-up related issues.

Consumer benefits

218 The actions that we are undertaking above will benefit consumers as there is assurance that the supply and unit pricing of all pipe and fittings that are required in the Iron Mains Replacement Programme reflect the current PE market supply chain dynamics. While prices can either inflate or deflate depending on the market state, these will be set on a bi-annual basis and consumers will have oversight over the prices. Continuity of supply will ensure the works are maintained on time and in emergency situations we have enough stock to ensure the pipes are working correctly and that the consumer receives minimal disruption.

Procurement and contracting challenge: delivery of the Repex programme

Background

219 While we fully understand the Repex workload to be completed in the GD3 period, we recognise that the costing of required workload is challenging due to the changing cost drivers. We engaged external consultancy support to aid this costing challenge (Deecon REPEX Mains Lay Cost Modelling Report - SGN-GD3-ECR-03), both to help support the assessment of complexity factors and to aid with building a cost model to support our GD3 business plan submission and this is detailed further within our Cost Assessment and Benchmarking Strategy (SGN-GD3-SD-08).

220 [REDACTED] This increase in cost is predominantly due to the change in the workload type, with more work required to be delivered for mains that have adverse network conditions associated with them and additional complexity factors. This is detailed further with our Network Asset Management Strategy (SGN-GD3-SD-06).

221 As described earlier in this document and within our Network Asset Management Strategy (SGN-GD3-SD-06), our approach to Repex has meant that we have delivered our programme to prioritise 'mandatory' mains which have the most risk associated with them.

222 This approach has significantly reduced the risk associated with iron mains in an efficient way and, in previous price control periods, we have consistently met or exceeded the targets we have been set. However, this has meant that the different types of mandatory (predominately Tier 1) mains remaining include a level of complexity associated with the replacement process which we would typically define as adverse network conditions. These are detailed within our Network Asset Management Strategy (SGN-GD3-SD-06) and typically include one or more of the seven types of adverse network configurations listed.

223 These adverse network configurations introduce complexity and are usually smaller projects which are less attractive to contractors who will typically require a higher premium to complete them. This will increase costs and require more resource to complete compared to earlier projects within the iron mains programme.

224 This has been compounded by more competitive markets, and that we do not have sufficient allowances within GD2 to cover the cost of completing the work. This has resulted in a significant

volume of gas engineers, operatives, and Contractors either leaving or transitioning away from the gas industry due to challenges with allowances not being sufficient to cover the cost premium required to deliver this type of workload.

225

[REDACTED]

226 For GD3 we will need to attract approximately 30 contract labour teams in order to effectively deliver the workload as well as retain the existing contractors that are onboarded.

227 We engaged specialist procurement consultants to help undertake an assessment of challenges and opportunities for Southern mains replacement and propose a number of levers for increasing gas industry attractiveness. Through the process we engaged with a broad range of stakeholders both internally and externally. Externally, we engaged with seven incumbent contractors which represented over 90% of the repex spend in the South of England, and an additional 50+ suppliers who operate in the UK replacement market.

228 The external feedback from the consultant analysis confirmed that there is a parallel supply base who are interested in considering gas mains replacement opportunities. However, they were already focused on alternative civil engineering works in water, electricity and telecoms.

229 There was also evidence to suggest that several large contractors had chosen to leave the utility sector in recent years who had cited various reasons including the unrealistic expectations driven by aggressive regulatory cycles, significant pricing pressures from regulators, intrinsically hazardous workload, and an unfair risk distribution between clients and suppliers. It was clear to us that we needed to address these concerns in order to ensure delivery of the repex programme.

230 Though a small number of the contractors were already serving the gas industry we were very conscious that targeting the supply chains of other networks may deliver short-term delivery benefits but would lead to additional cost- pressures. This would not be a long-term solution and that we had to therefore concentrate on growing the supply base of contractors, and this included making the sector attractive to them through higher contractor rates.

Key actions

Managing relationships

231

[REDACTED]

232 Although potential suppliers provided us with their conditions on entering the gas industry, they provided more reasons for their reluctance to do so. These included gas engineering being outside their core competence, the likelihood of not being competitive due to significant upfront mobilisation and setup costs, difficulties upskilling and maintaining gas resource, concern over risk profile and lack of profitability under a new sector and challenging geographical constraints.

233 To counter this challenge, significant works have been done to stimulate and introduce competition back into the gas market. We identified and engaged 228 suppliers, specifically with the aim of growing supplier numbers across the Southern network. Limited success has been achieved with suppliers as they were either already committed to other clients or were seeking significant commercial compensation to mobilise within a new network location.

234 [Redacted]

Sharing risk

235 [Redacted]

236 Both contractors had significant levels of interest but would only contract on a cost reimbursable method with recoverable upfront mobilisation costs paid in advance of works commencing. This and the overall stature of these delivery contractors has resulted in an overall increase in volume delivery but is not driving increased cost efficiency into the replacement delivery programme.

Encouraging innovations

237 [Redacted]

238 [Redacted]

239 [Redacted]

Consumer benefits

240 The primary objective of our Contractor Attraction Projects team, which is led by our Procurement and Supply Chain team, is to increase the volume of contractors working for us on our Iron Gas Main Replacement programme through effective lead generation and engagement strategies. Additionally, the project looks to identify and implement growth opportunities within the contractor base, both for incumbent contractors and new entrants.

241 Attracting and retaining skilled contractors creates benefits for consumers such as enhanced service reliability. By allowing us to deliver our gas mains replacement projects efficiently and on schedule, this initiative contributes towards our efforts in reducing service interruptions to end-users, i.e. the public.