

Email to:

[RIIO3@ofgem.gov.uk](mailto:RIIO3@ofgem.gov.uk)

15 January 2025

Dear Ofgem,

### **Response to Framework consultation: electricity distribution price control (ED3)**

*Scottish Renewables is the voice of Scotland's renewable energy industry. The sectors we represent deliver investment, jobs and social benefits and reduce the carbon emissions which cause climate change. Our 360-plus members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.*

Scottish Renewables welcomes the opportunity to respond to Ofgem's consultation on its electricity distribution price control (ED3) framework consultation.

#### **Overarching objectives**

The UK is at a critical point in its transition to net-zero, and Distribution Network Operators (DNOs) play a vital role in achieving this goal. DNOs are essential technical enablers for the UK government's 'Clean Power by 2030' target, the Scottish Government's 2045 and the UK Government's 2050 net-zero targets. We believe that 'Incentive' and 'Output' regulation should remain foundational to the RIIO model and have delivered good consumer outcomes.

We fully support Ofgem's new approach to its net-zero and growth responsibilities. Ofgem's duties must consider how regulatory decisions enable sustainable economic growth. We consider the fact that DNOs provide the critical national infrastructure that is central to the economy and plans to increase investment represents an important economic growth opportunity as material factors for RIIO-ED3.

Distribution networks are fundamental to facilitating decarbonisation across the economy and investing in electricity network capacity will provide extensive benefits for the country. The transition to a green economy presents a significant growth opportunity for the UK, including the projected growth of DNOs. Delivering on these plans will create green jobs for generations of young people while supporting a just transition by providing opportunities for workers to retrain and upskill as we move away from traditional industries like oil and gas.

## Drivers for Change

**Demand and decentralised energy:** the distribution system will experience growing stress in the ED3 period due to accelerating peak demand growth and greater decentralisation. The Clean Power 2030 (CP2030) report<sup>1</sup> estimates that 29-30% of GB's 2030 Clean Power supply will come from onshore wind and solar, with approximately 29% of the 27GW of onshore wind and 90% of solar being connected directly to the distribution network by 2030.

**Transport and heat:** while the exact pace of transition remains uncertain, a societal shift towards electrification of heat and transport is underway—both will be important to achieving net-zero goals.

**Strategic planning:** we acknowledge the importance of a strategically planned energy system at ED3. The introduction of the Regional Energy System Plan (RESP), Centralised Strategic Network Plan (CSNP) and Strategic Spatial Energy Plan (SSEP) represents a significant development for the entire energy system in the UK. These changes may unlock or require adjustments in the regulatory approach taken by Ofgem. However, integrating RESP into the price control process will be complex and could carry associated risks.

**Connections:** the huge increase in projected connections at ED3 will pose significant challenges for DNOs, with major associated planning, workforce, supply chain and logistical challenges.

**Climate resilience:** climate resilience should be a key driver for change during ED3. Climate change is already presenting substantial challenges to networks in ED2. DNOs have made good progress embedding climate resilience into decision-making processes. As they enter a period of unprecedented network build, more focus from the government and Ofgem is required. It is essential to ensure that DNOs are incentivised and adequately funded to provide resilient networks that are fit for current and future needs.

**We have not responded to your questions in detail, but we would like to draw your attention to the following key points:**

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<sup>1</sup> [Clean Power 2030 Action Plan - GOV.UK](#)

Ofgem should consider whether the proposed overarching objective<sup>2</sup> for ED3 is ambitious enough. We think there is a need to ensure that the energy transition is delivered at distribution in the most efficient way over the long term, for current and future generations of customers.

There is a need to take a long-term, intergenerational approach to the net-zero transition. This is necessary to achieve the most efficient network transformation over multiple generations of bill payers. RIIO-ED3 should be seen as a stepping-stone for achieving longer-term, net-zero goals. There is a risk that Ofgem's emphasis on 'least cost' in the proposed overarching objective is misinterpreted. The cost impact on customers should not be considered solely within the context of a single price control, driving down costs artificially in one price control can increase costs and reduce the efficiency of delivery in the longer term.

Ofgem should focus on ensuring the framework enables the right decisions to intervene in the network can be made at the right point in time, with a view to 2050 delivery. This would minimise the overall system costs of reaching net-zero rather than prioritising short-term reductions that increase long term costs. We believe that this approach aligns with Ofgem's duty to protect current and future consumers.

In addition, whilst the proposed objective has a strong focus on enabling the necessary capacity to achieve decarbonisation goals (which also satisfies Ofgem's net-zero duty), we think it is important to explicitly recognise the role that DNOs play in driving local economic growth, by facilitating a net-zero transition for homes and businesses. This would also satisfy Ofgem's sustainable growth duty.

#### **Network for net-zero:**

We welcome the focus on a strategically planned network and the emphasis on the need to provide additional capacity for users.

#### **Resilient and sustainable networks:**

We welcome the emphasis on resilience throughout the document – particularly on climate, workforce and supply chain resilience. These are important challenges that we will need to navigate in the RIIO-ED3 period. The regulatory framework must therefore enable the right investment and support longer-term thinking on workforce and supply chain. Network

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<sup>2</sup> *'For ED3 this means that the price control should ensure that current and future consumers' interests are met by electricity distribution networks providing the necessary network capacity, to enable decarbonisation goals, at least cost, based on whole system value; this is proposed as the overarching objective for ED3.'*

operators would benefit from a clear direction on what level of climate resilience Ofgem and government expect to be provided, given the context of increased climate challenges.

**Smarter networks:** data and digitalisation have a central role in the energy transition, so we welcome their inclusion as a consumer outcome. Ofgem must ensure that DNOs are funded to invest in the underpinning data and digital architecture required and also ensure they can attract and retain technology professionals with the requisite data skills.

### Regulatory models

The concept of 'Inputs'<sup>3</sup> can be interpreted in various ways, significantly impacting the regulatory framework. A model prescribing specific inputs with limited deviation would increase regulatory involvement in network operations, reducing the DNO's agency. This would elevate risks for the DNO by restricting network management and increasing the chance of non-compliance. To mitigate this, this framework would need to be revised by another party, such as Ofgem or National Energy System Operator (NESO).

As acknowledged by Ofgem, this model would reduce efficiency and innovation while imposing significant resource demands on the regulator. There is also a risk that investment would be delayed if Ofgem does not have the capacity to process 'inputs'. Ofgem must also consider the regulatory burden this approach would place on DNOs and the value for money for consumers, ensuring it does not distract from the focus on delivery.

Overall, we agree there is still a role for re-openers in RIIO-ED3. However, re-openers are highly resource intensive, not only for DNOs but also for Ofgem, and over reliance on re-openers could result in a delay in investment that is necessary to achieve net-zero goals.

We support the RESP and a meaningful transitional Regional Energy Strategic Plan (t-RESP) contribution to the setting of ED3, as well as the permanent arrangements for RESP having significant interaction with the price control. RESP and tRESP should be focused on facilitating the regulatory approval process, lightening the burden on Ofgem and DNOs.

The tRESP should concentrate on activities that NESO plans to deliver throughout 2025 and into early 2026 at the latest. In particular, NESO and Ofgem should indicate which 'pathway'

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<sup>3</sup> **Inputs:** the extent to which the regulator is prescriptive about certain minimum requirements, deliverables or types of solutions that it considers critical to achieving an output.

DNOs should plan their request for ED3 baseline allowances against as soon as practicable, and such a pathway should be aligned to the CP2030 mission.

### **Anticipatory Investment**

We are encouraged and supportive of the shift in focus from Ofgem towards anticipatory investment in network capacity and agree that underinvestment is the key risk. We agree with the rationale for moving to a more directive “input-based” framework on more strategic/large load investments, but the detail of how this is implemented will be important to work through:

- The t-RESP and RESP) are still in the very early stages. This is something that has to be considered, as DNOs do not know what to expect or how that will feed into their business plans. We are calling for more detail on this.
- More directive/prescriptive requirements from Ofgem on load need to consider input from DNOs. Delivering a large increase in investment in ED3 will be challenging and delivery timescales must be reasonable for DNOs while taking into account supply chain constraints
- Incentives for companies to deliver efficiently should remain in place.

### **Addressing the challenges and opportunities**

As flagged in our response<sup>4</sup> to Ofgem’s RESP Consultation, we have major concerns over the current timeline for the RESP proposal, particularly in the context of the RIIO-ED3 price control period. The finalisation of the initial consultation on RESP is entirely misaligned with the ED3 price control period.

Transmission and distribution coordination is also an area of concern. We believe this is something that is continuously overlooked, particularly in Scotland where 132kV network is classed as transmission. Transmission Operators (TOs) and DNOs will have an important role in supporting NESO in bridging the gap between national and local strategic planning, particularly in light of this Scottish nuance. We believe there could be merit in a methodology for independently ensuring alignment across Transmission Distribution boundaries in order to make sure that customer needs are being flagged and addressed most strategically.

It is encouraging that Ofgem is asking the correct questions regarding supply chain and recognising the substantial challenges ahead. However, there are concerns over the implications of the Electricity Transmission Advanced Procurement Mechanism (APM) and how it will affect DNOs, especially as they share a supply chain with Transmission. Ofgem needs to explore a comprehensive range of regulatory options to tackle the supply chain

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<sup>4</sup> [SR Response: Ofgem’s consultation on the Regional Energy Strategic Plan policy framework](#)

challenge. Potential measures may include but are not limited to: providing upfront funding, adapting the APM for DNOs and/or introducing additional risk funds.

The workforce challenge is also a significant issue for DNOs. We believe that Ofgem should encourage DNOs to collectively invest in training and developing their staff. Again, potential measures may include but are not limited to: investing in training facilities, standardising qualifications and reviewing authorisation processes across networks that could facilitate contractors working across multiple networks.

These issues are complex, and while Ofgem is asking important questions, the solution extends beyond Ofgem and out to broader government authorities. We believe the framework should also consider central government skills policy, immigration policy, and the implications of the new industrial strategy. We fully understand that access to the skilled workforce necessary to implement ED3 plans is a broader issue than the responsibilities of Ofgem alone. However, Ofgem needs to create a regulatory framework that supports the successful delivery of CP30 and beyond and the ED3 framework must act as an enabler, which is critical to achieving our objectives.

Moving forward with the series of price controls leading up to 2050 targets, more frequent, periodic targets need to be set to drive consistent project delivery, for example, aligned with the CCC's carbon budgets. It is necessary to incorporate 'sticks' at regular intervals to garner government and public support and push for a 'follow-the-target' over a historic 'follow-the-market' outlook. By making the right decisions now, we can ensure that RIIO-ED3 facilitates the journey to meet net-zero while delivering long-term value for money and a green economic recovery.

Scottish Renewables would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

*Stephen McKellar*

Stephen McKellar  
**Head of Grid & Systems Policy**  
[smckellar@scottishrenewables.com](mailto:smckellar@scottishrenewables.com)  
Scottish Renewables