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## **Ref : ED3 Framework Consultation**

### **Summary:**

E.ON welcomes the opportunity to respond to Ofgem's ED3 Framework Consultation. We agree with Ofgem that this forthcoming electricity distribution price control period (ED3) will have a critical role in enabling the energy system transformation required to achieve Clean Power by 2030 (CP2030), as well as the UK's transition to Net Zero by 2050.

We are encouraged by Ofgem's aspiration to "try to keep the [consumer] costs of infrastructure needed for Net Zero as low as possible", and appreciate the difficult balance to be struck between ensuring the networks are able to accommodate Government's ambitious 2030 target<sup>1</sup> whilst not further exacerbating the very real affordability challenges so many customers face.

There is clearly no "silver bullet" to this, and so we support Ofgem's transparency when setting out the complexities of this endeavour.

Whilst we are supportive of the regulator's rationale for moving to a more anticipatory approach to network maintenance and build - and appreciate that the drivers for change which have been set out within the consultation mean a shift in approach will be required - we nonetheless have concerns in relation to the extent to which Ofgem are being prescriptive in relation to the role of flexibility.

E.ON is a well-established energy supplier, but it should be noted that – both in the UK and internationally – we have undertaken a significant shift as an organisation towards embracing flexibility in the past 1-2 years. This is due to an increasing recognition of its vast potential as a cost saving resource across the energy value chain.

As such, we have concerns that Ofgem's ED3 proposals: moving away from a "flex first" approach and adopting what seems to be an overly narrow/prescriptive role

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<sup>1</sup> Noting that the decision to bring this forward by five years will, inevitably, have cost implications

for flexibility, risk inadvertently undermining the potential of this critical energy resource at the very point in time at which it is beginning to be properly understood and rolled out.

It should also be noted that, whilst Ofgem's intentions under ED3 are for network investment to be more anticipatory, inevitably this ambition will not be realised as quickly as is hoped for/expected – a situation which could be further exacerbated by the skill shortages and supply chain pressures pointed to within this document.

E.ON therefore believe that continuing to prioritise flexibility, without imposing limits as to its role, is a no regrets option.

As we have outlined in detail in our response to Question 14, we are also not of the opinion that the levels of flexibility procured by DNOs to date are reflective of this resource's capability/potential. Rather, we believe that these [low] volumes illustrate the stark reality of a flexibility marketplace which is not fit for purpose. This is therefore another reason to avoid placing yet further limitations on the scope of flexibility – a measure which would further exacerbate this dynamic.

In light of the shared imperative that consumers do not incur more costs than would be needed (under ED3), we cannot overstate the importance of avoiding a scenario whereby network costs - which could have been permanently avoided had the right flexibility market structure been in place - are incurred and it is only in retrospect that this is realised.

We would therefore ask that:

- Ofgem **do not narrow the scope of flexibility** further from the role currently set out under ED2.
- Ofgem and Government work with industry and consumers to **better evaluate the technical capability of flexibility**/the value it could bring to the networks, as a resource independent of the context of today's flexibility marketplace.
- **Government commit to a target volume of flexibility out to 2030** (in a similar vein as to their target volumes for renewable generation).

Within this target, it is our view that it should be possible to include robust assumptions relating to both the technology mix and geographical spread of flexibility (*an endeavour which we should be more feasible in the context of the Strategic Spatial Energy Plan (SSEP), Centralised Strategic Network Plan (CSNP) and the forthcoming transitional Regional Energy Strategic Plans (RESP)s, later on RESP)s*).

- **Urgent resource** (beyond that already set out under Ofgem's Market Facilitator proposals, and in-flight measures) **be put into place to address the key blockers within flexibility markets** such that the full value of flex can be unlocked.

This includes expediting the delivery of widely acknowledged "quick wins such as:

- Co-ordinating flexibility markets across all voltage levels, with particular emphasis on:
  - **Unlocking the stacking** of multiple flexibility revenues;
  - Creating a coherent set of **primacy rules; and**
  - Producing an **interoperable flexibility baselining methodology** (one which is accepted across industry and consumers, and allows flexibility market participants to be able to confidently assess both the value (£) and volume of deliverables).
- Better use of longer-term flexibility contracts to de-risk the landscape for flexibility providers and procurers, as well as providing confidence to the networks that the resource will be available as and when needed.
- Expediting proposals outlined under digitalisation programmes such as the Flexibility Market Asset Register (FMAR), and Centralised Asset Register (CAR)

To summarise, we believe that “what” needs to be done to realise the full potential of flexibility is commonly understood. Similarly, the reform/mechanisms to achieve this are either in flight or due to be put in place shortly.

The area for urgent focus therefore needs to be on the “when” - a focal point which should be at the top of Government, Ofgem and industry’s agenda whilst we collectively sprint towards 2030.

It should be noted that there are some encouraging recent announcements in relation to the above such as NESO’s recent efforts as outlined in their Dec 24 publications around enabling demand side flexibility, as well as Government’s recently announced commitment to producing a Low Carbon Flexibility Roadmap.

Whilst we acknowledge that we have outlined multiple points for (collective) action above, we are of the view that the effort to deliver these is low relative to value.

Since flexibility can, and should, act as a complementary measure to the anticipatory network build Ofgem have set out within this Consultation, we cannot see a reason as to why these outcomes should not be put into place as soon as possible.

### **Responses to Questions:**

#### Drivers for Change

**Q1. Do you agree with our characterisation of the wider context for ED3? Are there any other areas of context that you consider material for ED3?**

E.ON broadly agrees with Ofgem's characterisation of the wider context for ED3, especially in relation to the fact that future electrification to meet net zero targets will increase demand and that this - in turn - means that consumers/other network users must be able to connect promptly. This also clearly means that the networks must be fit for purpose, and so reliability will become an ever more prevalent concern.

In terms of other areas of context that we consider material for ED3, it is important to note that marked uncertainty remains over the exact extent, and speed of rollout of green electrification.

Variables affecting this include:

- The nature and speed of the transition away from natural gas. This will be largely dictated by Government policies such as decisions on hydrogen, and will be impacted by the success (or otherwise) of maintaining a consistent/stable policy landscape for green heating alternatives.
- The extent to which Government support green electrification through the rebalancing of electricity costs

Macro-economic impacts such as:

- The recent US election - with a new US administration which appears to be anti-Net Zero, championing domestically produced, cheap fossil fuel energy.
- Global political impacts on eg. the EV supply chain.

Consumer attitudes (which will be impacted by macro-economics, but also the national landscape – for example affordability, UK Government policies) which will impact the uptake of eg. green electrification.

Government's proposed Local Power Plans could also provide a unique opportunity to influence much of the above, with HMG bringing the ability to stimulate stable, de-risked decentralised energy resource (DER) growth.

### Electric Vehicles

We agree with Ofgem's commentary in relation to the criticality the rollout of public charging infrastructure will play in relation to both Battery Electric Vehicle (BEV) sales growth, and also the decision of those who have already adopted EVs continuing with this choice of vehicle.

Again, the prohibitively high cost of UK electricity (in comparison to other countries) plays a significant role in this space.

We agree with Ofgem that policies such as the Rapid Charging Fund and the Local Electric Vehicle Infrastructure Fund should support EV uptake and would also point to other policy areas which need to be borne in mind including:

the Zero Emission Vehicle Mandate, the application of VAT to public charge-points<sup>2</sup>, generalised Local Government issues relating to the accessibility of space and land, as well as the directly relevant connection issues referred to within this Consultation.

We acknowledge there have been recent positive developments within this space – for example we welcome Government’s recent statement around removing unnecessary planning constraints relating to EV charging infrastructure, and the associated commitment to consult on amending the National Planning Policy Framework to ensure the planning system prioritises the rollout of EV charge points, including EV charging hubs.

We are supportive of all efforts to stimulate data sharing across all parties involved in green electrification and agree with Ofgem’s comment that an improvement within this space is needed for better planning of all related BEV infrastructure.

#### Planning Reform:

We also acknowledge the system benefits expected to result from Government’s strategic planning reform (including the RESPs, the Strategic Spatial Energy Plan (SSEP), and the Centralised Strategic Network Plan (CSNP)), and welcome the proposal that a transitional RESP (tRESP) output - planned for Q1 2026 - should be available to inform DNO business planning for ED3.

#### Flexibility:

As Ofgem rightly state, increased system flexibility - including consumer energy resource (CER) – will play an ever-increasing role in balancing the wider system.

We also wholeheartedly agree with the point made that demand can support in the productive use of excess electricity which can, with the right market mechanisms in place, provide a vital role in reducing network needs and therefore costs.

Whilst we have sympathy with Ofgem’s viewpoint that the volume of new demand and distributed generation that will need to be connected by 2050, means that there is a risk that using flexibility to manage network constraints in the short to medium term could defer, not avoid, investment, we believe it is too early to be able to know this definitively at this stage.

We note that Ofgem point towards data from the Energy Networks Association (ENA) which shows that almost half of peak volume tendered in 2023/24 was unmet. However, we do not believe this is a reflection of the capability of flexibility. Rather, we are of the opinion that this (limited) uptake holds up a mirror to the fundamentally flawed/largely inaccessible flexibility market landscape as it stands today.

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<sup>2</sup> Charging at a public device compared to a domestic installation - where VAT is levied at 5% - can currently be more expensive than filling up with petrol or diesel, and considerably more than the lowest night-time domestic rate

We would therefore urge Ofgem to evaluate the technical capability of flexibility, and the value it could bring to the networks, independent of today's flexibility marketplace.

As this Consultation rightly points out, the Market Facilitator should help improve access to flexibility but more can and should be done - as we have outlined in our Executive Summary.

#### Other Drivers:

In relation to the remaining context set out within this Consultation, E.ON agrees with Ofgem's observation that connection challenges at the transmission level will impact distribution-level timelines (and that these will be increasingly prevalent for lower level voltage projects).

We therefore welcome the proposed consultation/call for input exploring these issues further, and evaluating options to improve the connections process across the entirety of the electricity network.

We are also encouraged that the ability to incorporate/respond to what could be far-reaching impacts under REMA, will be incorporated into Ofgem's ED3 framework.

Finally, it does seem proportionate of Ofgem to place a greater emphasis on the need for climate resilience under ED3. Whilst it is difficult to fully ascertain the extent to which greater vulnerability to extreme weather may be due to historic poor network maintenance/build, as opposed to meteorological changes per se, we agree that there is a legitimate need to strengthen the distribution system's resilience to climate change.

#### **ED3 objective and consumer outcomes**

#### **Q2. What are your views on our overarching objective and proposed consumer outcomes?**

We agree with Ofgem's over-arching objective that the [ED3] 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.

The subsequent explanatory sentence<sup>3</sup> is helpful, and we believe that Ofgem are right to point to the "full range of consumer interests".

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<sup>3</sup> This means we will take decisions, using government's delivery plans as our baseline, that proactively enable net zero. Fulfilling this duty also requires us to better understand the full range of consumer interests in the transition to net zero, to better help deliver a fair and cost-effective transition that works for them

However, it should be noted that there is still a degree of subjectivity within this. For example, what “works” for one consumer/set of consumers may not work for others.

As a general point, if the UK is to succeed in delivering CP2030, followed by Net Zero without losing some consumers along the way, the energy sector must face up to the fact that there will be tensions – and possible trade-offs - between net zero measures (many of which will be costly in the short term) and the immediate affordability issues many consumers are currently facing. This is directly relevant within the context of ED3 when considering the need to invest strategically in the networks, whilst not over-burdening consumers.

It is also within this context, that we believe a more nuanced evaluation of the large cost saving technical potential flexibility should be undertaken.

Nevertheless, we support Ofgem’s four proposed consumer outcomes of: networks for net zero (underpinned by the ambition to provide capacity/access for users when it is needed at least cost based on whole system value for current and future users); responsible businesses (including ensuring there are robust consumer protections, with a focus on long-term value for money, financial resilience and supporting sustainable economic growth); resilient and sustainable networks and smarter networks (optimising the use of data, digitalisation and innovative solutions).

**Q3. Do you agree that the network investment elements of the framework should be more input based?**

We agree that, in light of the following factors, a move to a more inputs-based model is rational:

- The expected prevalence of higher quality/more consistent inputs available to support the network investment elements of the framework through the introduction of RESPs, as well as the SSEP and CSNP.
- The fact that there is a lower risk of over-spend/build, due to the CP2030 target and the consequent necessary rollout of green electricity demand

We would stress that, in order to manage associated risks around diluting the effectiveness of efficiency and innovation incentives in particular, Ofgem’s outlined guardrail approach – as opposed to a prescriptive input mechanism – would be more appropriate.

We would also ask that as part of monitoring any adverse impact on efficiency and innovation incentives (in tandem with the need to ensure ED3 is delivering Ofgem’s build ambitions), regular impact reviews take place throughout ED3. We would also recommend that an adaptability mechanism be built into the framework to allow for change in approach should this be needed.

As such, we welcome Ofgem’s proposal to assess many of their proposed regulatory framework alternatives to the evolved RII0-ED2 counterfactual, and to undertake an Impact Assessment where appropriate.

**Q4. Do you agree that we should consider introducing additional controls around network investments and what features should these controls contain?**

We agree that Ofgem should consider introducing additional controls around network investments where these relate to securing the future capacity and resilience of the network in particular.

Such controls should enable Ofgem, and consumers, to have a greater degree of confidence that investments will endure beyond the ED3 period and that any artificial re-allocation of cost allowances (for example, between CAPEX and OPex) is dis-incentivised.

We believe the following controls have particular merit as follows:

- A "stage gate" approach for capital investment projects can ensure costs are proportionate and that delivery is on-track.
- Clear output delivery metrics, combined with price control deliverables (PCDs), should help to safeguard clear investment deliverables which are carried out cost effectively.

**Q5. Do you agree that the incentives on DNOs will need to adapt from RIIO-ED2 and if so, how?**

E.ON agrees that incentives are likely to need to evolve as DNOs move from ED2 to ED3. We also support the use of output delivery metrics to protect against under delivery, on the basis that these should deliver assurances relating to planned investments.

We also endorse Ofgem's belief set that clearer inputs support these aspirations, as well as the goal that these inputs be derived through consistent methodologies (an outcome that the RESPs should deliver).

E.ON also believes that Ofgem's proposed adaptability measures (to reflect changes on the ground, to regional plans and/or overall pathways) are both pragmatic and necessary. This is particularly relevant in light of the levels of uncertainty that persist in relation to the pathways to CP2030, for example. We also support a focus on asset health and climate resilience since this is in the interests of all network users.

We have sympathy in relation to the commentary within this Consultation around the difficulties associated with continuing to adopt an ex-ante approach (to the cost assessment of capital investment) and therefore broadly would support approaches such as 'stage gates' to manage this.

Finally, we believe the principles setting out how adaptations to either the cost assessment or Totex approach might be re-organised (in order to drive more efficient spend), are rational and should ensure that under-spend on capital is dis-incentivised.

Since this is such a material topic, with wide ranging potential unintended consequences, we feel unable to comment in more depth on this at this stage without more detail.

**Q6. Do you agree that there is still a role for re-openers in ED3, particularly given the timing of the future full RESP output and how should these be triggered?**

We agree with principle of re-openers, especially since this Consultation elaborates on Ofgem's view that it may not be appropriate to move fully towards an ex post style of regulation.

Furthermore, there are several upcoming decisions which will have material impact on the networks, and which are not yet clear (the CP2030 Action Plan still has a wide range of possible technologies for heating, for example).

As per our commentary around RESPs under Question 17, we believe the timeframes for putting in place full RESPs should be expedited (in light of the 2030 target), although we welcome the idea of tRESPs.

It should be also noted that, whilst the visibility we have so far in relation to how RESPs will be produced suggests an encouraging level of robustness, nonetheless, we do also need to remain cognisant of the fact that they are conceptual only at present. Therefore, their impact (positive or otherwise) is difficult to determine and, as such, any potential role as "re-openers" should be treated with some caution.

**Q7. Using RII0-ED2 as the counterfactual, what alternative regulatory models or characteristics are needed in ED3 to ensure the DNOs deliver the above consumer outcomes? What are the trade-offs we should consider?**

No Comment

**Q8. Do you agree that the regulatory framework for ED3 should have features of the Plan and Deliver model for network investment and Incentive Regulation model for other elements?**

No Comment

**Regulatory Framework**

**Q9. Do you think that there is a greater role for elements of ex post regulation or of cost pass through in ED3, either specifically in assessing cost changes resulting from changes to investment requirements during the period, or more broadly to reflect the changing context?**

Whilst we appreciate the rationale set out within this Consultation for introducing greater elements of ex post regulation and/or cost pass through in ED3, it should be noted that this approach is problematic from the point of view of customers and energy suppliers as per the following:

- The majority of consumers prefer cost stability for budgeting purposes, including the ability to forecast their costs. This is particularly pertinent for SME and I&C energy customers both of whom frequently give this feedback.
- Moving to a greater ex-post model introduces greater risk for energy suppliers, which pushes up risk premia.

In terms of pass-through costs, we are uncomfortable with a greater role being assigned to these.

Under current ED2 methodology, the pass-through mechanism (and other elements of costs) can be opaque, with any associated risks not being well signposted. If Ofgem then move to an ex-post passthrough regime, the risk exposure of large movements is increased which - in turn - increases risk premia/costs for customers.

Please see a recent example of significant variance between forecasts:

Variance Between DNO Forecasts (Sep 24 to November 24):

*Note: these forecasts may have an impact on a given suppliers' forecast costs, as they impact the charging methodology that is recovered from customers.*

As can be seen in the below table (which shows variance between DNO forecasts from Sep 24 to Nov 24) there are some significant variances – for example substantial increases in revenue due to drivers<sup>4</sup> including an augmentation in DNOs' pass-through costs.

	2026/27
10 EPN	6%
11 CNE	1%
12 LPN	6%
13 SPM	15%
14 CNW	5%
15 NEDL	5%
16 ENW	-2%
17 SHEPD	4%
18 SPD	20%
19 SPN	1%
20 SEPD	0%
21 SWALES	5%
22 SWEST	0%
23 YEDL	5%

<sup>4</sup> Other factors include a large correction factor adjustment due to under-recovery in the previous year which has been adjusted for in the next open year (Apr-26).

## **Networks for Net Zero**

### **Q10. What is the potential availability of network flex across GB for DNOs in the short term and on the journey to net zero during ED3?**

As Ofgem reference in relation ED2 incentives, flexible solutions ("network flex") have the capability to reduce peak load, securing the network during periods of planned maintenance, and managing faults.

As we have outlined in our response to Question 1, we do not believe that cause and effect have been correctly assigned when measuring the "success" (or otherwise) of flexibility through uptake.

Instead of poor uptake reflecting the capability of flexibility to support system needs, we believe that this is more likely to be the result of substandard flexibility markets.

As, Ofgem state themselves "a possible reason for this [tenders going unmet] is that distribution flexibility service providers may be more attracted to participating in system-level flex markets due to the potential to earn greater revenues". However, it is notable that the possibility of taking corrective action through driving forward fit for purpose network-flex markets does not seem to then be considered.

The enablers that need to be put in place in order to fully unlock the potential of flex are widely understood, and have been for some time as we have outlined in our Summary. By way of example, if the ENA's Open Networks programme (now being taken over by the Market Facilitator) were to rapidly put in place its deliverables, the landscape would change markedly – opening up huge potential resource.

The themes of strategic investment and de-risking rightly permeate this Consultation in relation to network build and maintenance. However, the inverse is true for flexibility.

To address this particular oversight, we would encourage:

- Prioritisation across industry, Ofgem and Government of flex market enablers and the removal of barriers.
- Of particular relevance within the more strategic timeframe being considered under ED3 would be the issuing of longer-term flexibility contracts (as a de-risking measure both for the provider and the networks)
- A UK Government commitment to a nation-wide target for flexibility would hugely de-risk the flexibility market landscape, providing a much needed level of certainty for flexibility market participants and the networks. Whilst we acknowledge this is more complex than, for example, Government's renewable generation target, it is nevertheless feasible.

As we will build upon in our responses to Questions 14 and 15, we agree with Ofgem's assertions around the need to facilitate flexibility across the entire network (to be clear, we diverge only on the point that flexibility should have a reduced role

to play). The enhanced remit of NESO, including in its role as overseer of the RESPs should support in this endeavour as well as facilitate a move away from the somewhat arbitrary transmission/distribution network dichotomy under which we currently operate.

As a final note, we would urge caution when evaluating the value of flexibility on the local network in the context of power losses. Whilst it is true that higher network loading can have an adverse impact on power losses, it is nonetheless important to remember that localised flexibility resource can also support in minimising line losses.

**Q11. To what extent are global supply chain and workforce pressures contributing to longer lead times for delivery network reinforcement?**

No comment.

**Q12. Do you agree that the risk and downside for consumers of network underinvestment in network reinforcement would be greater than the downside of overinvestment?**

E.ON agrees that – due to the drivers for changed outlined at the beginning of this Consultation - the risk and downside for consumers of network underinvestment would be greater than the downside of overinvestment. This is particularly relevant when considering the greater certainty around the likely demand impacts of widespread electrification.

We also concur with Ofgem that the risk of stranded assets is subsequently lower, and are also of the view that delaying the necessary investment into network capacity and capability could ultimately cost consumers and industry more.

**Q13. What are the benefits and risks to deliverability if network reinforcement is deferred to future periods?**

No comment.

**Q14. What do you see as the role of distributed flexibility, both in the short and longer term, to manage distribution network constraints?**

As Ofgem, Government, and industry agree distributed flexibility will play a hugely important role as we rapidly move towards CP2030 and then Net Zero.

As we have set out within our response to this Consultation, we have concerns relating to Ofgem's positioning of flexibility as being either "network flex" or "system flex", with the implication that these are mutually exclusive use cases – a differentiation with which we do not agree.

Whilst we agree with the cited risk that "if DNOs focus on network flex to defer network reinforcement, without proper consideration of wider system needs, this may not be optimal from a wider system perspective", we think it is problematic to

suggest that using network flex to minimise investment in local networks could come into “conflict with” facilitating system-wide flexibility. This scenario could theoretically arise. However, we believe this is a risk to be managed; not a reason to move away from using flexibility to minimise investment. We are also of the view that this eventuality is far less likely in light of the forthcoming RESPs, not to mention the as the SSEP and CSNP.

We would also like to point out that, as the benefits of flexibility digitalisation projects relating to asset/resource visibility and capability across the entire electricity network, plus liquid flexibility markets come into force, the risk of there being a conflict between “system” and “network” flex should greatly reduce.

In addition to this:

- The RESPs should also ensure that there are no such conflicts since, as Ofgem outline in section 6.30, these will improve foresight into the location of new generation and demand on the network and therefore support in the delivery of Net Zero efficiently.
- If endeavours such as the Market Facilitator deliver tangible progress against long-standing objectives to unlock barriers to flexibility uptake - particularly in relation to primacy rules - again we see this as supporting a far greater role for flexibility across the whole network.

To respond to the question around what the role of distributed flexibility (both in the short and longer term) could be in terms of managing distribution network constraints we have the following comments:

- As Ofgem have set out in Figure 16, the procurement of Sustain (providers changing their supply/demand up or down to help manage network constraints) has been limited to date. However, as we have outlined in our response to Question 1, we are not of the view that this is reflective of the capability of flex. Rather, we believe it is due to the inadequacy of the flexibility marketplace.
- In the short term, we therefore believe distributed flexibility can play a pivotal role in reducing network strain, including ensuring balancing is resolved within the distribution network (thereby avoiding constraints across both the distribution and transmission network). This in in line with Ofgem’s view.
- The extent to which this resource can be increased across the remainder of the 2020s has been recently assessed under NESO’s Constraints Collaboration Project (CPP), for example, with demand flexibility being identified as having marked potential within this.

We welcome Ofgem’s acknowledgement that there is a solid case for network flex in terms of alleviating capacity requirements (particularly if reinforcement has a long lead time) but we do not see this as needing to be an interim measure. Again this is a scenario where having a) a nationwide flex target (with some estimated technology/regional granularity) and b) longer term flex contracts would support in

ensuring a greater degree of confidence in relation to the capability, prevalence and reliability of flex.

**Q15. How do we ensure that network flexibility is used only when it is in consumers' long-term interests in ED3?**

We fully support Ofgem's objective that network flexibility be used only when it is in consumers' interests. However, we are not of the view that this should only be restricted to the "long term" (surely this should be across all timeframes?).

Nonetheless, we endorse all endeavours to avoid consumers incurring costs in the short term that will not deliver longer term benefits and understand that Ofgem are looking to strike the right balance in this respect.

Whilst we agree that it is essential to avoid a scenario whereby flexibility results in a series of incremental reinforcements which will end up costing consumers more in the medium/long term, we do not believe that this - in turn - means that networks need to move away entirely from the ED2 "flex first" model. Indeed, the equal and opposite risk that network build/costs are incurred which we realise in hindsight were not needed is equally relevant.

Once more, de-risking the flexibility landscape through nationally agreed flex targets/improved markets/the issuing of longer-term contracts can ensure that these two risks are balanced and that one set of activity (network build) is not carried out in without a realistic view of the other (flexibility capability).

We understand that there are inherent uncertainties at present in relation to the rollout of flexibility. However, this further strengthens our position that this means Government should step up and commit to this highly valuable resource<sup>5</sup>

**Q16. How are unexpected constraints dealt with currently? How quickly can these be eased, and what is the impact of these unexpected constraints (eg on LCT uptake)?**

No comment.

**Q17. Do you agree that the tRESP output outlined for early 2026 will help create a level playing field for DNOs' business planning and support the ED3 objective and consumer outcomes?**

We welcome Ofgem's pragmatic approach in relation to having a transitional RESP (tRESP), including the proposals as to how this would be assimilated into the ED3 process.

Whilst we believe that having an "ambition" (not a target) for the first full suite of RESP outputs to be available in 2028 is far too slow in the context of CP2030,

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<sup>5</sup> Please see more detail in in our response to Question 1.

Ofgem's initiative to produce the tRESP points to the ability to put in place a viable intermediary measure.

We would encourage Ofgem to develop this approach further in order that more meaningful RESPs are available earlier than 2028.

**Q18. Can anticipatory network reinforcement be used to smooth the long-term build profile to avoid creating pinch points for the supply chain and workforce? What are the risks and trade-offs?**

No comment.

**Q19. Do you agree that investment optioneering should aim to reduce the lifetime costs by sizing elements of works for long-term need, including considering the impact of thermal losses?**

No comment.

**Q20. Is a 5-year price control (2028-33) the right duration to achieve the objective of securing timely network capacity for the net zero transition at least cost to consumers over the long run?**

We believe that, on balance, a 5-year price control (2028-33) is the right duration to achieve the objective of securing timely network capacity for the net zero transition at least cost to consumers over the long run.

In view of the benefits outlined within this Consultation of moving to a more anticipatory model, as well as the upcoming instigation of the SSEP and CNSP, we are of the view that the energy system is well positioned to adopt a more strategic and forward looking approach which may also be able to extend to the period immediately after ED3.

**Q21. To what extent should the price control be more directive on specific anticipatory and strategic investments to achieve the 'networks for net zero' consumer outcome?**

No comment.

**Q22. Do you agree with our characterisation of strategic and anticipatory investment and our expectation that these activities would have different regulatory drivers and controls?**

No comment.

**Q23. Should the price control provide more guidance or guardrails around the use of particular network solutions to achieve the 'networks for net zero' consumer outcome?**

No comment.

**Q24. Should we consider how we might bring all network capex investment together within the framework, irrespective of driver (eg load, asset health, resilience), to ensure a common approach to future proofing and delivery?**

### **Responsible business**

**Q25. How can we better strengthen accountability for consumer outcomes?**

E.ON welcomes all efforts to better strengthen accountability for consumer outcomes which, as Ofgem assert, needs to be underpinned by greater transparency of DNO activities.

We agree that certain outcomes are less easily measured, compared or valued, than others (eg. community engagement, nature and biodiversity).

Whilst it is right to look to evaluate all outcomes, we believe that the initial focus should be on improving the ability of Ofgem to measure key consumer metrics (such as those relating to vulnerable customers, asset health and network reliability, etc).

It is our view that this approach is needed since there are already acknowledged challenges relating to the measurement of ED2 DSO incentives<sup>6</sup>, as outlined in Ofgem's "RIIO-ED2 Distribution System Operation Incentive metrics Consultation".

This cites concerns relating to "data quality (notably a lack of historical data), persistent issues with the methodologies themselves and the risk of perverse incentives" and we would therefore suggest addressing these fundamental evaluation blockers in the first instance.

Once these issues have been remedied, this should then lay the foundations for unlocking the transparency and accountability Government, industry and Ofgem are all looking to achieve under ED3.

**Q26. What are your views on ED company reporting and the overall transparency of performance and compliance?**

No comment.

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<sup>6</sup> The DSO incentive drives licensees to more efficiently develop and use their network, taking into account flexible and smart alternatives to network reinforcement and ultimately reduce customer bills, based on DNOs' delivery of their DSO activities

**Q27. Do you consider that ISGs alone are sufficient to ensure high quality and effective consumer and stakeholder engagement throughout the ED3 price control?**

**What alternative or complementary approaches should we consider?**

No comment.

**Q28. Do you agree that Ofgem should adopt research approaches, such as deliberative techniques to ensure that the consumer voice is heard and considered throughout the ED3 and company Business Plan process?**

No comment.

**Q29. How should our approach to enhanced stakeholder engagement be adapted to better include the perspectives of all vulnerable customers, including those that are seldom heard, digitally disengaged/excluded and those that are worst served?**

No comment.

**Q30. What alternative or additional approaches might we use to ensure that the consumer voice remains central to our policy setting process?**

No comment.

**Q31. Has the BMCS incentive served its purpose in driving performance improvements and how can we adapt the metrics to better incentivise performance across a wider range of interactions between DNOs and their customers, particularly relating to connections?**

No comment.

**Q32. How should the CVI be adapted for ED3 and should we consider greater alignment with the GD sector?**

**Q33. Should DNOs have a role in delivering energy efficiency measures to homes and businesses? What might the scope of these services be and how should they be funded?**

No comment.

**Q34. How can we drive further service improvements under the TTC incentive?**

No comment.

**Q35. Should the TTC also apply to domestic connection upgrades ie fuse/cutout/service cable upgrades, including unlooping?**

No comment.

**Q36. What is the best approach towards incentivising services to major connections customers and how should the MCI be adapted for ED3?**

No comment.

**Q37. How should the ED3 framework adapt to ensure that customers connecting to the distribution network are provided with the service that they need from the DNOs?**

No comment.

**Q38. In the context of greater electrification, is our current approach towards regulating reliability appropriate for ED3?**

No comment.

**Q39. What role should bespoke outputs and CVPs have in ED3?**

No comment.

**Q40. How can we optimise late and early competition models for application in electricity distribution?**

No comment.

**Q41. How should our approach to cost assessment evolve, to enable us to better manage increasingly pronounced trade-offs between consumer protection, efficiency and investment in the distribution network?**

No comment.

**Q42. How should our guidance for cost benefit analysis evolve to better enable optioneering between different interventions, taking relevant long-term risks and benefits into consideration?**

No comment.