
ADE Draft Response
Ofgem RIIO-ED3 Framework Consultation
15TH JANUARY 2025

Context

On behalf of our mission Empowering Energy Demand, the ADE welcomes the opportunity to respond to Ofgem's RIIO-ED3 Framework Consultation.

Our mission is to embrace the value of a decarbonised, demand-led energy system, creating a future where households, businesses and industry are properly rewarded. The current electricity system is creaking under the demands of a rapidly changing system. We must harness the millions of EVs, heat pumps and the immense industrial demand we have right now to lower bills and keep our electricity system operable. Instead, we're fighting against them. Even more than that, industrial energy is decarbonising with long-term consequences for our energy system - creating new infrastructure and unlocking even greater sources of flexibility. The Government, Ofgem, the CCC and others all recognise that households, businesses and industry should play an active role in a decarbonised electricity system. Now is the time to make this a reality.

Summary

The proposals in the consultation suggest a significant change of direction for flexibility on the distribution networks in the ED3 price control period. We agree with the wider context, that increased electrification from now to ED3 will increase demand on the network and henceforth proactive network investment will be needed to not exacerbate an already large connections queue and to maintain network stability. Additionally, with growing clean energy generation as a result of policy initiatives such as the Review of Electricity Market Arrangements (REMA) and Clean Power by 2030 (CP30), that flexibility on the transmission and distribution network has become increasingly important to manage grid constraints. However, there are sections of this consultation that make Ofgem's intent for the future of distribution network flexibility uncertain, which has raised significant concerns across industry. For example, language such as 'High penetration of flex on the network to meet capacity requirements could lead to a risk of sub-optimal outcomes' is misleading and implies that Ofgem intend to move away from flexibility over the long term.

It seems in the consultation that there is a lack of focus on the role that demand side flexibility needs to play alongside network investment, as a solution to mitigate over-build and facilitate a more efficient use of energy and existing distributed energy resources (DERs). Flexibility can not only be used for managing constraints on the distribution network and reducing the need for network investment, but for supporting resilience on the networks that will be needed with its increasingly intermittent nature. Despite currently being in their nascency, DSO flexibility markets should become a valuable source of income for consumers with flexible assets in the correct location to respond to signals on the distribution network, with UKPN recently surpassing 100,000 registered flex assets in its markets. If Ofgem is proposing that this is only considered as an interim, short to medium term solution, this consultation could be seen as being contradictory to the work that has been undertaken by the networks and industry participants since the beginning of the DSO incentive and must be rectified by Ofgem in their proposals. Suggesting that flexibility **or** network investment can be carried forward in the ED3 price control period is not conducive to encouraging DSO market growth or Government and industry's Clean Power by 2030 objectives to achieve a 5-6x increase in consumer-led flexibility over the next 5 years. Additionally, over the past year, Ofgem has introduced the role of the Market Facilitator which will be undertaken by Elexon to create a more streamlined process for flexibility market participation across the transmission and distribution network. Ofgem's intent for the Market Facilitator role if they do not anticipate distribution network flexibility as a viable solution in the long term must be made clear, given that this role is set to be fully functional in 2026.

The ADE strongly supports NESO's proposal to align the connections process with the Government's Clean Power 2030 Action Plan. This realignment should be done as soon as practicable so that industry (including projects still waiting in the queue) can invest (or divest) and plan accordingly. Additionally, the ADE believes distribution connected demand (i.e. industrial, commercial, and community energy projects) that want to decarbonise via electrification should be given strategic status and considered within connections reform aligning with CP30. In order to achieve reformation of this process, we acknowledge the need for additional capacity to be built into the network, yet flexibility does have a large role to play alongside investment to increase network efficiency. As the DNOs will be responsible for applying the Gate 2 Readiness and Strategic Alignment Criteria to relevant projects in the existing distribution queue and future application windows as well as aligning the existing future and distribution queue to the CP30 plan, the role that they will also need to play in incentivising network flexibility alongside this work should be made clear as soon as possible. The DNOs also need to improve their data collection and publication processes, not only individually, but to make their processes nationally standardised. Accurate data will be a prerequisite for identifying where the growing demand is and data will inform how much more grid GB needs to build and where.

It is positive that Ofgem propose to align the framework with Strategic Energy Planning work, such as the Regional Energy Strategic Plans (RESPs), and that ED3 will be adaptable to these plans. Ofgem calls on NESO/RESPs to keep flexibility services and consumer-led flexibility in mind when modelling supply and demand, identifying system need and collecting network data which should be carried into the ED3 framework. On the subject of agility, we support a re-opener being continued into ED3 to make the framework responsive to tRESP (transitional RESP) outputs and other strategic energy planning decisions, making the framework system planner and input based. However, Ofgem expects the RESP "to be utilised by those undertaking spatial and local energy planning...[t]here will be no requirements on local government to follow the direction of the RESP, but [Ofgem] would expect there to be a strong incentive, as outcomes will be better aligned across energy system and spatial planning." The ADE believes these incentives are not a given and a stronger enforcement mechanism or a more formal incentive plan should be considered with Government to make sure that the principles of the RESPs are put in place.

The changes that Ofgem propose to the 'Plan and Deliver' approach to place stronger incentives on the DNOs to deliver network investment outputs are positive and required, yet these will be dependent on the design of the RESPs, CSNP and SSEP and the potential to use consumer-led flexibility as an alternative must be included. The industry also calls for evidence from Ofgem that flexibility has had a direct impact on current under-investment from the DNOs. The role that flexibility would play alongside these incentives should be made clear, aside from NESO's guidance in the investment plan.

Networks for Net Zero

We agree with the proposed consumer outcome of Networks for Net Zero and the principle that flexibility should not be considered as the only viable option to manage constraints on the distribution network and that network reinforcement will be needed. However, flexibility can be used as an alternative to excessive network upgrades that will include 'labour-intensive, local interventions' that are disruptive and expensive for consumers. Intertwining flexibility and strategic planning at this stage, such as through this framework and strategic energy planning that is being carried out by NESO, can reduce the risk of detriment to consumers, of underbuilding or overbuilding the network. Despite supporting that a growth in innovation and digitalisation will help to reduce costs associated with the network, these should not be considered a substitution for flexibility and will be most effectively utilised by a growing number of participating DERs, which will not happen without adequate signals for flexibility participation. These could be significantly improved by market initiatives such as stacking between transmission and distribution flexibility services and the ability for assets in Active Network Management (ANM) zones and non-firm connections to be able to participate in NESO balancing services. Moving away from flexibility would also exacerbate issues

mentioned in the consultation by Ofgem around supply chain pressures that have the potential to increase reinforcement costs.

The Networks for Net Zero outcome is very dependent on decisions that are made in the RESPs, which will set out a process for stakeholder engagement, forecasting of future network investment and when reinforcements will be carried out in the ED3 period. This point emphasises the importance of the decisions that are made by NESO and while that is not inherently negative, the boundaries around what is/is not NESO's responsibility (and what is/is not the local authorities' responsibility) can and should be clearer. NESO should aim for a comprehensive view of what is required at the local level. Additionally, further exploration of the geographical division of RESPs and their possible interaction with zonal pricing needs to be considered.

Responsible Business

The Responsible Business consumer objective should focus on making network decisions that benefit consumers and how flexibility can be used to decide where and when network infrastructure should be built. Furthermore, given Ofgem's justified concerns over supply chains and skills force it seems contradictory to deprioritise the solution (flexibility) that allows networks to spread out investment over time and build their workforce and supply chains. Over-spending on this without a fully evidenced cost benefit analysis comparing it to more steady investment balanced with flexibility seems highly shortsighted and somewhat surprising given Ofgem and Government's recent championing of consumer-led flexibility.

The introduction of stakeholder groups and engagement through the RESPs in ED3 will provide a good opportunity for industry participation that will be needed to strike the balance between network and flexibility decisions, providing group member representatives are balanced across the industry. Additionally, we are supportive that initiatives are taken on the Time to Connect (TTC) and Major Connections Incentive (MCI) to help reform the distribution connections queue along with Ofgem's overarching work on the Connections Action Plan.

Smarter Networks

As above, the DNOs will require more information on what Ofgem plan for them to 'reorientate the focus of their evaluation frameworks' from the current flexibility first approach. From the ADE having participated in the DSO Performance Panel, it is clear that flexibility is becoming a more established focal point across the DNOs. There is still progress to be made and Ofgem must make intentions for the future of the incentive clear as soon as possible.

We strongly believe in the need for increasingly coordinated plans between transmission and distribution system operators and the importance of the role of the Market Facilitator. In particular, the harmonisation of advancements in digitalisation and IT upgrades should be prioritised. A common and transparent approach to data sharing and network visibility is needed, so we are pleased to see that the DNOs would be encouraged to continue investing in this throughout ED3 and that requirements on this would be included within their licence. Ofgem should continue to consider the work being undertaken on Flexibility Market Asset Registration and the Smart Secure Electricity Systems programme work on Energy Smart Appliance Interoperability.

Resilient and Sustainable Networks

In relation to the above, we are supportive of the Network Asset Risk Metric (NARM) being extended to more asset types and that the cyber resilience framework that has been proposed for ET3 should be implemented in ED3. Consistency between these standards across the networks and technology types is useful for Flexibility Service Providers, along with NESO and the DNOs.

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?

The proposals in the consultation suggest a significant change of direction for flexibility on the distribution networks in the ED3 price control period. We agree with the wider context, that increased electrification from now to ED3 will increase demand on the network and henceforth proactive network investment will be needed to not exacerbate an already large connections queue and to maintain network stability. Additionally, with growing clean energy generation because of policy initiatives such as the Review of Electricity Market Arrangements (REMA) and Clean Power by 2030 (CP30), that flexibility on the transmission and distribution network has become increasingly important to manage grid constraints. However, there are sections of this consultation that make Ofgem's intent for the future of distribution network flexibility uncertain, which has raised significant concerns across industry. For example, statements such as 'High penetration of flex on the network to meet capacity requirements could lead to a risk of sub-optimal outcomes' are misleading. It seems in the consultation that there is a lack of regard from Ofgem on the full system value that flexibility can provide, not only as an alternative and alongside network investment as a solution to mitigate over-build and facilitate a more efficient use of energy and distributed energy resources (DER). The ability for flexibility to provide full system value and resilience on the distribution network for the Distribution Network Operators (DNOs) should be given equal consideration, helping to maintain system security in a future of more intermittent generation and demand.

Despite currently being in their nascency, DSO flexibility markets should become a valuable source of income for consumers with flexible assets in the correct location to respond to signals on the distribution network, with UKPN recently surpassing 100,000 registered flex assets in its markets. If Ofgem is proposing that this is only considered as an interim, short to medium term solution, this consultation could be seen as being contradictory to the work that has been undertaken by the networks and industry participants since the beginning of the DSO incentive and must be rectified by Ofgem in their proposals. Suggesting that flexibility **or** network investment can be carried forward in the ED3 price control period is not conducive to encouraging DSO market growth or Government and industry's Clean Power by 2030 objectives to achieve a 5-6x increase in flexibility over the next 5 years. Additionally, over the past year, Ofgem has introduced the role of the Market Facilitator which will be undertaken by Elexon to create a more streamlined process for flexibility market participation across the transmission and distribution network. Increasing the ability for consumers to stack revenues across DNO and NESO services will increase the value of participation significantly for consumers and increase asset visibility across the networks. Ofgem's intent for the Market Facilitator role over the long term if they do not anticipate distribution network flexibility as a viable solution in the long term must be made clear, given that this role is set to be fully functional in 2026.

ED3 objective and consumer outcomes

Q 2. What are your views on our overarching objective and proposed consumer outcomes?

We agree with the consumer outcomes set out in the consultation. However, if Ofgem continue to view the use of flexibility as **only** a method for deferring network reinforcement, we will not achieve the objectives that have been set out to achieve CP2030. We must begin to consider the whole system value that flexibility is able to provide across the networks for system resilience and outage management and providing revenue to consumers for being flexible with their energy consumption. We still consider consumer-led flexibility as having a large role to play in helping to relieve pressure on the networks and supply chain by helping to defer and avoid network investment where possible, yet its role should not become too narrow within the ED3 price control period that its full system value cannot be realised. Ofgem must create a framework that incentivises the use of consumer-led flexibility to help manage network and system needs for DNOs and the NESO, rather than solely focussing on building generation capacity.

Regulatory Framework

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

It is difficult to make a decision on our support for the regulatory framework without strategic energy plans having been published or finalised. Supporting the Plan and Deliver and Incentive Regulation framework would therefore be very dependent on the content of the strategic energy plans. Consumer-led flexibility on the distribution network must be included within these plans, alongside network investment decisions. Additionally, more information is required on how the DNOs would be incentivised to respond to the inputs for specific network needs and if these would be input directly to the NESO.

The decision to move to Plan and Deliver/ Incentive Regulation emphasises the importance of the decisions that are made by NESO in the RESP and while that is not inherently negative, the boundaries around what is/is not NESO's responsibility (and what is/is not the local authorities' responsibility) can and should be clearer. NESO should aim for a comprehensive view of what is required at the local level. Additionally, further exploration of the geographical division of RESPs and their possible interaction with zonal pricing need to be considered.

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

As above, in principle we are supportive of the introduction of additional controls to incentivise network investment when it is required, providing flexibility is given due consideration within investment decisions, such as a diversification in the solutions that could be undertaken by the DNOs and for the supply chain.

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

We agree that incentives on the DNOs will need to adapt from RIIO-2, to manage significant electrification prior to and during the ED3 price control period and in order to reach CP2030 objectives. Additionally, investment will be required across the distribution network to manage the connections queue and a growing volume of DERs on the LV level. However, if Ofgem are proposing to no longer consider flexibility as a long-term solution to help manage constraints and stability on the network, we question how objectives such as reaching 10-12GW of flexibility by 2030 will be achieved and consumers will be rewarded for investing in low carbon technologies. Controls should be introduced in the ED3 price control period that allow for flexibility and network investment to be incentivised and planned alongside each other, such as consumer-led flexibility having a large role to play in strategic energy planning proposals set out by NESO, realising the full system value that flexibility is able to provide across the networks. We are apprehensive to support any change to the totex balance and think that this should be kept equal between capex and opex to not overly encourage capital investment.

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?

Yes, particularly given that the RESP has not yet been fully established.

Q7. Using RIIO-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?

As above.

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?

See above answer to question 3.

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?

The ADE does not have a position on this.

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?

Network flexibility potential is expected to grow in the short and long term as we work to achieve CP2030 and Net Zero by 2050. Among others, initiatives such as the introduction of the Market Facilitator will promote the alignment of flexibility services across the DNOs and NESO, helping to streamline administrative processes and support revenue stacking. Additionally, work being undertaken by the NESO to remove barriers to the market, such as the Routes to Market Review and Enabling DSR workstreams are focussed on increasing participation in balancing services from a wider range of flexible technologies. Throughout last summer, Ofgem published proposals for digitalisation across the industry, with the aim of making offers to consumers more attractive through efficient, automated processes. The Review of Electricity Market Arrangements (REMA) and Clean Power by 2030 Action Plan have been published by DESNZ, taking a holistic approach across the entire energy system, where energy flexibility and specifically demand side response from short duration flexible assets is set out to have a large role to play. Furthermore, DESNZ has undertaken to produce a low carbon flexibility roadmap, resulting from the CP30 Action Plan, with consumer-led flexibility at its heart and an intention of reaching 10-12GW by 2030, far more than low carbon dispatchable capacity that will be on the system by the same date.

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

The ADE does not have a position on this.

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?

Despite agreeing with the risk of underinvestment for consumers as a priority when planning future network investments in the ED3 price control period, overinvestment should be given equal consideration. Over investing in the network could exacerbate the risks highlighted in the consultation, such as heightening costs to consumers and extinguishing the signal for consumer-led flexibility. Achieving CP2030 will be highly dependent on consumers engaging with NESO and the DNOs in flexibility services. Overinvestment in network infrastructure will not only cost consumers more in resources and the supply chain but will also reduce investment signals in distributed energy resources that will help us achieve the 5-6x increase in flexibility Government and NESO have set out will be needed.

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

The ADE does not have a position on this.

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

As above, flexibility can be used as an alternative to excessive network upgrades that will include 'labour-intensive, local interventions' that are disruptive and expensive for consumers. Intertwining flexibility and strategic planning at this stage, such as through this framework and strategic energy planning that is being carried out by NESO, can reduce the risk of detriment to consumers, of underbuilding or overbuilding the network. Despite supporting that

a growth in innovation and digitalisation will help to reduce costs associated with the network, these should not be considered a substitution for flexibility and will be most effectively utilised by a growing number of participating DERs, which will not happen without adequate signals for flexibility participation. These could be significantly improved by market initiatives such as stacking between transmission and distribution flexibility services and the ability for assets in Active Network Management (ANM) zones and non-firm connections to be able to participate in NESO balancing services. Moving away from flexibility would also exacerbate issues mentioned in the consultation by Ofgem around supply chain pressures that have the potential to increase reinforcement costs.

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

In including network flexibility as a focal point within strategic energy planning, network investment plans and the potential for network flexibility can be used together to achieve optimum consumer and network outcomes. Additionally, in providing the opportunity for consumers to participate in DNO flexibility tenders, additional revenues and savings can be achieved that help incentivise low carbon technology investment. However, Ofgem and Government must take leadership in updating the modelling of the value stack of flexibility – as was previously done in the Smart Systems and Flexibility Plan 2021 and by Imperial College London and Carbon Trust in 2021.

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)?

N/A

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?

Yes, providing the role of local flexibility on the distribution network is included in the methods and assumptions that are used to determine network need.

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?

Given Ofgem's justified concerns over supply chains and skills force it seems contradictory to deprioritise the solution (flexibility) that allows networks to spread out investment over time and build their workforce and supply chains. Over-spending on this without a fully evidenced cost benefit analysis comparing it to more steady investment balanced with flexibility seems highly shortsighted and somewhat surprising given Ofgem and Government's recent championing of consumer-led flexibility. The DNOs and NESO within strategic energy planning of network infrastructure must consider the use of consumer-led flexibility alongside anticipatory investment decisions and how it can help to avoid pinch points on the network and for the supply chain.

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?

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?

Yes.

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?

We agree with the principle of introducing delivery metrics that monitor planned investments in aggregate and that the volume of firm connections that have been introduced as a result of that investment should be considered

as a large benefit of the investments made. Equally, the RESPs should be the driving force behind network planning and investment.

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?

Yes.

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?

There should be specific guidance on the use of network flexibility to achieve this consumer outcome.

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

Yes.

Responsible business

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

The Responsible Business consumer objective should focus on making network decisions that benefit consumers and how flexibility can be used to decide where and when network infrastructure should be built. Furthermore, given Ofgem's justified concerns over supply chains and skills force it seems contradictory to deprioritise the solution (flexibility) that allows networks to spread out investment over time and build their workforce and supply chains. Over-spending on this without a fully evidenced cost benefit analysis comparing it to more steady investment balanced with flexibility seems highly shortsighted and somewhat surprising given Ofgem and Government's recent championing of consumer-led flexibility.

We agree that accountability for consumer outcomes must be strengthened from having participated in the DSO Performance Panel in 2024. Evaluating the benefits of DSO activities for the consumer was the hardest criteria to quantify and was often where DNOs scored the lowest from consumer outcomes not being able to be adequately demonstrated. Benefits for consumers will be achieved through providing security of supply on the network through strategic energy planning and for consumers with flexible assets, providing additional revenue through DNO flexibility services.

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

Despite agreeing with the modifications that have been made in the RIGs and RFPR, more data transparency is needed from the DNOs. A large amount of data sets that are published, despite being transparent, are incomplete and therefore not useful. We anticipate the accuracy of data from the DNOs to increase as they progress with the DSO incentive yet agree with implementing stronger incentives on performance and compliance.

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?

Yes, the introduction of stakeholder groups and engagement through the RESPs in ED3 will provide a good opportunity for industry participation that will be needed to strike the balance between network and flexibility decisions, providing group member representatives are balanced across the industry.

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?

Yes.

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?

The ADE does not have a position on this.

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

The ADE does not have a position on this.

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?

The ADE does not have a position on this.

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

The ADE does not have a position on this.

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?

The ADE strongly believes that energy efficiency has an important role to play in the energy system. Increased energy efficiency can not only reduce overall demand but also provide grid flexibility. Improved insulation and energy performance allows buildings to store heat and energy, reducing peak demand. Reducing demand can halve the need for the expansion of the UK energy system by 2050.

It is important to consider whether DNOs are best placed to deliver energy efficiency measures. In the energy efficiency arena, DNOs may be best placed to identify areas where there is constraint in the grid and that may therefore be most valuable to target from a grid perspective. Focusing on areas with constraints for energy efficiency measures will benefit the DNOs, as will the potential for increased interaction with and awareness of such measures as they related to future electricity demand.

However, DNOs are likely not well placed to play an active role in delivering such measures, except through funding. A consistent funding stream is incredibly important in driving energy efficiency measures and retrofits, especially as the sector has suffered from changing, uncertain and discontinued subsidy schemes. This funding could come from a cost-benefit of analysis of energy efficiency measures compared with wires and grid expansion.

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

We are supportive that initiatives are taken on the Time to Connect (TTC) and Major Connections Incentive (MCI) to help reform the distribution connections queue along with Ofgem's overarching work on the Connections Action Plan.

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

The ADE does not have a position on this.

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

As above.

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?

The ADE believes distribution connected demand (i.e. industrial, commercial, and community energy projects) that want to decarbonise via electrification should be given strategic status and considered within connections reform aligning with CP30. In order to achieve reformation of this process, we acknowledge the need for additional capacity to be built into the network, yet flexibility does have a large role to play alongside investment to increase network efficiency. As the DNOs will be responsible for applying the Gate 2 Readiness and Strategic Alignment Criteria to relevant projects in the existing distribution queue and future application windows as well as aligning the existing future and distribution queue to the CP30 plan, the role that they will also need to play in incentivising network flexibility alongside this work should be made clear as soon as possible. The DNOs also need to improve their data collection and publication processes, not only individually, but to make their processes nationally standardised. Accurate data will be a prerequisite for identifying where the growing demand is and data will inform how much more grid GB needs to build and where.

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

The ADE does not have a position on this.

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

The ADE does not have a position on this.

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

The ADE does not have a position on this.

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?

The ADE does not have a position on this.

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?

The ADE does not have a position on this.

Q43. Do you agree that the current Real Price Effect (RPE) methodology should form the basis for adjusting allowances in ED3?

The ADE does not have a position on this.

Q44. Do you agree that the current approach to setting the ongoing efficiency challenge is a suitable starting point for ED3?

The ADE does not have a position on this.

Q45. Do you see any reason why we should not implement the proposed changes to the calculation allowed returns, consideration of investability and assessment of financeability that we set out in RIIO-3 Sector Specific Methodology Decision - Finance Annex for ET, GT and GD?

The ADE does not have a position on this.

Q46. Do you see any reason why we should not implement the proposed updates to financial resilience requirements that we set out in RIIO-3 Sector Specific Methodology Decision - Finance Annex for ET, GT and GD?

The ADE does not have a position on this.

Q47. What are the key factors (including benefits and costs to consumers) that Ofgem should take into consideration when conducting its review of the appropriate approach to regulatory depreciation in ED3 and beyond?

The ADE does not have a position on this.

Smarter Networks

Q48. How should the price control encourage ongoing development of the DSO role and activities to optimise whole system benefits for existing and future consumers?

The ADE is highly supportive of the DSO incentive for encouraging the development of flexibility markets, standardisation of DSO activities, achieving full network visibility and better digitalisation, and monitoring curtailment efficiency. The DNOs should continue to carry the responsibility for pushing local flexibility participation, providing consumers with additional revenue opportunities and utilisation of low carbon flexible technologies. The DNOs will require more information on what Ofgem plan for them to 'reorientate the focus of their evaluation frameworks' from the current flexibility first approach. From the ADE having participated in the DSO Performance Panel, it is clear that flexibility is becoming a more established focal point across the DNOs. There is still progress to be made, yet Ofgem must still make intentions for the future of the incentive clear as soon as possible.

We strongly believe in the need for increasingly coordinated plans between transmission and distribution system operators and the importance of the role of the DSO incentive and the Market Facilitator. Being able to stack revenues across DNO and NESO flexibility markets will be vital for encouraging participation, in particular, the harmonisation of advancements in digitalisation and IT upgrades should be prioritised. A common and transparent approach to data sharing and network visibility is needed, so we are pleased to see that the DNOs would be encouraged to continue investing in this throughout ED3 and that requirements on this would be included within their licence. Ofgem should continue to consider the work being undertaken on Flexibility Market Asset Registration and the Smart Secure Electricity Systems programme work on Energy Smart Appliance Interoperability.

Q49. What should the role of the DSOs be in identifying and delivering whole system benefits?

As above, the DSO incentive has a large role to play in delivering whole system benefits and driving the delivery of local flexibility markets.

Q50. Our historic approach to publishing and sharing datasets has been stakeholder-led and focused on establishing good digital foundations in the DNOs. With the rapid pace needed for enhanced data and

digitalisation, should we instead be considering incentives around strategic priorities, such as network planning, flexibility, and connections?

The ADE does not have a position on this.

Q51. How can we enable greater development of internal digital expertise in its licensees?

The ADE does not have a position on this.

Q52. How should network companies use AI to improve network insight and decision-making (both operating expenditure (opex) and capital expenditure (capex)) and how should we be encouraging this through the ED3 framework?

The ADE does not have a position on this.

Q53. Our aim is for the ED3 framework to be structured to deliver high impact, transformative innovation - do you think that further changes, alongside those proposed for the other sectors in our RIIO-3 SSMD, are required to deliver this?

No.

Q54. Are there any factors particular to DNOs that facilitate or challenge deployment of innovation on their own and across networks?

Consideration must be given to the location of the network operators and the balance that the DNOs have had to establish between the DSO and DNO sections of the business through the DSO incentive.

Resilient and sustainable networks

Q55. Do you agree that we should retain the Network Asset Risk Metric (NARM)? How should it further evolve in ED3?

We are supportive of the Network Asset Risk Metric (NARM) being extended to more asset types and that the cyber resilience framework that has been proposed for ET3 should be implemented in ED3. Consistency between these standards across the networks and technology types is useful for Flexibility Service Providers, along with NESO and the DNOs.

Q56. Do you agree that we should consider a more integrated approach to managing asset health, together with load-driven expenditure, given the need to future proof for resilience (climate, cyber and physical security) and future demand? What might the risks and benefits of this approach be?

Yes.

Q57. In the context of making anticipatory investment decisions, what do network companies and other stakeholders need to enable the planning and delivery of cost-effective network resilience measures against our changing climate? What risks and opportunities do you see linked to an input-based approach to these investment plans?

In an increasingly intermittent energy system, as a result of wide scale electrification as well a changing climate, strategic planning that includes future network investment decisions and the use of demand side flexibility alongside each other will be vital.

Q58. How should we monitor progress on the delivery of climate change resilience? Do you have any specific learnings which can help shape this?

The ADE does not have a position on this.

Q59. Do you have any comments on the suitability of current incentives to ensure that consumers continue to receive a reliable service in the face of climate hazards?

Alongside network reinforcement, flexibility can be used to help maintain network resilience and provide consumers with an additional revenue stream in intermittent weather conditions. In order to achieve CP2030, customers must receive value for the flexibility they can provide and help maintain system security through participation in local flexibility markets and the ability to stack revenues across DNO and NESO flexibility services.

Q60. Do stakeholders agree with retaining and strengthening the main components of the environmental framework from RIIO-ED2?

Yes.

Q61. Do stakeholders agree with building on the approach taken to cyber resilience in RIIO-3 for ED3?

Yes.

Q62. What specific issues are network companies facing in relation to the skills and capacity of their workforce and what measures should we take through the regulatory framework to mitigate these issues?

The ADE does not have a position on this.

Q63. What specific issues are supply chains facing and what measures should we take through the regulatory framework to mitigate these issues?

The use of demand side flexibility on the distribution network can help to reduce supply chain pressures associated to a high volume of network reinforcement being required over a 'pinch point' by helping to manage demand on the network demand.

Q64. Given our comments in Chapter 6 around taking a more proactive approach, are there any specific features of a more anticipatory or strategic investment approach that might create risks or opportunities for supply chain and workforce constraints?

As above.

Q65. What would the benefits be of a geographical approach to delivering new and upgraded assets in terms of supply chain and workforce constraints?

The ADE does not have a position on this.

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