

14<sup>th</sup> January 2025

[RIO3@ofgem.gov.uk](mailto:RIO3@ofgem.gov.uk)

**RE: Framework consultation: electricity distribution price control (ED3)**

Dear sir or Madam,

CSE is an independent national charity, established in 1979 to tackle climate change and end the misery of cold homes. We undertake practical work to support households and communities to act on energy, alongside original research and analysis to inform local and national policy.

For over 40 years, we have supported people to take effective action on energy in their homes. We help communities and local councils to understand energy issues, set priorities, and put plans into action. Our research and analysis is focussed on making the energy system greener, smarter and fairer. Through our advice service, home visits and one-to-one support, we help around 22,000 people a year to reduce their bills and make their homes warmer and more energy efficient.

**CSE's response in summary**

Overall, we strongly support the approach set out within in ED3, to invest in network capacity ahead of need whilst considering longer-term whole system costs. The balance of risk has changed, with the risks of under-investing now being much greater than those of overinvesting.

Furthermore, the widespread connection delays being experienced across the sector, suggest that the more directive approach proposed within ED3 (Plan and Deliver) is needed, with DNOs building capacity ahead of time, rather than building just enough to keep bills down, with less emphasis on using flexibility to defer network investment. However, we need Plan and Deliver to work hand in hand with the use of flexibility for managing and running networks i.e. ensuring that the new framework doesn't result in any dilution of using and developing flexibility services for these purposes.

The consultation proposes a move away from DNO-led, output-based model towards an independent system planner-led, input-based model. The inputs will be drawn from Regional Energy Spatial Planning (RESP) and the Strategic Spatial Energy Plan to better model long-term network needs ahead of time. This is logical given the context and need for rapid change, but a lot rests on RESP developing agreed assumptions and common methodologies, and as yet RESP delivery remains unclear and unproven. Furthermore, there is also no clear mechanism for dealing with disputes or disagreement around local plans (e.g. if DNOs, GNDs, LAs or the RESP disagree).

We also wish to comment on fairness considerations within the proposals.

The Customer Vulnerability Incentive (CVI) measures value of fuel poverty services delivered, and the value of low carbon transition services delivered – but apart from these two metrics the proposals for ED3 provide no measures to assess the quality of the services provided, the depth of engagement or the benefits being gained by different customers i.e. the extent to which DNO services are being delivered in a fair and inclusive way. Whilst there are clear overlaps, delivering a fairer transition to net zero and leaving no one behind is not the same thing as helping fuel poor and vulnerable customers. There are many more ways that the transition to a smarter net zero energy system could leave people behind, and create inequality, including households that were not previously fuel poor or vulnerable.

Delivering fair and inclusive services requires DNOs to monitor and understand the distributional impacts of their services and responsible business delivery should include proactively planning to deliver a fairer transition. DNOs should be required to report on what they are doing to ensure they aren't 'leaving people behind' at least annually. Any DNO choices need to be examined to see who is benefiting and who is losing out.

There's also patchy delivery of social obligations by DNOs at present – with delivery incentivised as opposed to obligated. The approach to delivery also varies significantly and it's important that energy advice provision adheres to a common standard i.e. making sure that people are offered high quality advice that's tailored to their needs. There could be a case for mandating more delivery of support for vulnerable customers to bring up the standards of those lagging, but Ofgem needs to ensure DNOs remain incentivised to lead and go beyond the norm to avoid a lowest common denominator effect.

For example, our work on Smart Energy Action Plans shows the potential for customer-centred approaches and tailored advice from DNOs to help ensure vulnerable customers are not excluded and are able to benefit from smart energy technologies. We need to ensure that the mechanism for funding for innovations like SMEAPs remain in future.

## 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?

We agree with your description of the context, however what is missing is the impact of the energy price crisis on household heating bills, driven by surging wholesale gas prices and significant increases to electricity standing charge costs. Whilst the peak of the crisis has passed, nevertheless the price cap is 35%<sup>1</sup> higher in 2024 than it was in 2021, pushing 6 million people into fuel poverty. It's important to note that Ofgem has recently consulted on the way standing charges are collected and there's significant political focus on them. If standing charges need to rise further to pay for the

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<sup>1</sup> [www.nea.org.uk/energy-crisis/energy-crisis-timeline/](http://www.nea.org.uk/energy-crisis/energy-crisis-timeline/)

changes needed under ED3, then we need to consider how they are levied and collected i.e. looking to do this in the fairest way possible.

Also, the context fails to acknowledge the importance of people's attitudes and behaviour. To achieve net zero, we will need to see widescale public acceptance of new technologies, energy tariffs and energy system changes. We will need to gain public consent for these changes occurring in their own homes as well as the significant investment needed to transition to a smarter more flexible net zero energy system. Public consent should not be taken for granted and is inextricably linked to fairness – people want to know that the changes happening will be delivered in a fair and equitable way – as well as being cost effective for consumers. This is particularly the case in the domestic energy sector, which is changing rapidly through the growth in smart and flexible tariffs and technologies. These changes demand new behaviours, knowledge and understanding of customers.

Finally, there is no context that relates to the social responsibility or consumer protection area of the framework for example:

- Increasing inequality in society with the gap between rich and poor growing.
- Changing demographics, with increasing prevalence of old age and associated poor health in the later stages of life.
- Homeownership and ability for younger people to invest in property. Smaller household sizes in general.
- Reduced trust in institutions and misinformation (particularly relevant to climate).

We recognise that this context could be out of the scope of electricity networks, but this shifting socio-demographic context likely to impact DNOs' ability to drive the scale of change outlined for the price control period.

## ED3 objective and consumer outcomes

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

We strongly support the proposed overarching objective which embeds the commitment to net zero, and the principles enshrined within in it to invest in network capacity ahead of need and consider whole system costs and fairness.

We also support the proposed consumer outcomes, in particular outcome 1, Networks for net zero. The rapid electrification of our energy system, heat and transport mean that grid infrastructure and capacity are more strategically important than ever before, justifying the proactive planned approach now proposed.

As noted in Q1 a net zero energy system will not be deliverable without public consent, hence the objective of responsible businesses is imperative not just for public good and moral reasons but because fairness is essential in the delivery of the transition.

## Regulatory framework

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

The new role and perspective of NESO, Strategy Spatial Energy Plan and Regional Energy Strategic Plans being developed mean that regulators should have detailed spatial data on capacity planning and system need across GB, and therefore more data on the need for investment. It seems logical therefore that a more proactive, input-based approach is used, to ensure that DNOs are delivering investments consistent with the longer-term needs of the network, nationally and regionally. This would provide the certainty that is needed for DNOs, their investors to programme investments and a clearer timeline to help reduce delays from the supply chain.

We support the move away from a more DNO-led, output-based model towards an independent system planner-led, input-based model informed by inputs from other stakeholders. However, a real-world lens should be applied to inputs from stakeholders and, in particular, more clarity is required from government so that DNO's, NESO and RESPs can plan effectively, for instance outstanding decisions on hydrogen home heating and the phase-out period for gas central heating, which only central government can make. For instance, it could be taken from the gas networks that widespread use of hydrogen in home heating is going to happen. DNO's are not in a position to make a determination on this in their ED3 planning.

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

Providing that RESP produces plans that DNOs, GDNs, LAs and Ofgem can agree on then additional controls could potentially include an obligation for DNOs to make sufficient network investment to deliver these plans.

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

Yes incentives will need to adapt in ED3. E.g. the Customer Vulnerability Incentive (CVI) needs to ensure higher and more consistent service standards for fuel poor and vulnerable customers across all DNOs whilst retaining mechanisms to reward innovation and better practice.

New obligations or incentives also need to be introduced to develop stronger understanding across all DNOs of the distributional impacts of their investments and services on different consumers. And DNOs should be obligated to report on their work to leave no-one behind (not just their support for fuel poor and vulnerable consumers).

### 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, we agree that there is still a role for re-openers within ED3. Given the pace of change in the energy sector and uncertainties with the rate of renewable energy deployment, take-up of EV's and deployment of flexibility, system needs are likely to change as more becomes known. There needs

to be potential to amend investment plans and release further investment as the system need becomes clearer.

### 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?

The summary of load related expenditure delivered through RIIO-ED2 and the widespread connection delays being experienced across the sector suggest that the more directive approach proposed within ED3 is the correct approach.

However, given deployment uncertainties with EV chargers and heat pumps, the following mechanisms could allow DSOs to react nimbly to meet increased demand:

- A secondary reinforcement volume driver which adjusts funding automatically (based on agreed unit costs)
- Load-related re-opener through which DNOs can make the needs case and request efficient funding for larger, more complex reinforcements on the primary network.

### 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?

Yes. We agree that the regulatory framework should have strong elements of the Plan and Deliver model for network investment. However, we need Plan and Deliver to work hand in hand with using flexibility for managing and running networks – and ensure that the new framework doesn't result in any dilution of using and developing flex services for these purposes – particularly when DSO functions and delivery is only just embedding within DNOs.

### 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?

Probably but ex post regulation should be limited to very specific aspects and with 'guard rails' to ensure ED3 overall delivers cost-effective solutions for consumers.

## 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?

The potential for availability for flexibility is huge, but the flex market needs to be supported to develop further – including through regulatory reform, technological investment, and stakeholder engagement.

## 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?

We strongly agree that the balance of risk and downsides to network investment has changed. The risks of under-investing are now much greater than those of overinvesting. There is a significant risk that repeated incremental network intervention could be more costly and disruptive than a more strategic approach. It should also be recognised that the pace of low carbon technology deployment is not independent of grid reinforcement.

The ability to connect to the grid capacity has become a major constraint on both the deployment of renewable energy and the take-up of heat pumps and has started to impact development outside the energy sector, including housing and commercial development limiting economic growth, in addition to the net zero transition.

The NESO Clean Power Report evidence strong economic upsides arising from the swift decarbonisation of the UK energy system by 2030. This can only be achieved through reinforcing the transmission and distribution networks at an unprecedented rate.

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

The NESO Clean Power report evidenced that network reinforcement cannot be deferred if the clean power commitment is to be met:

“Current plans for network expansion are sufficient, but must overcome many barriers to deliver on time, and some vital projects need to be accelerated to deliver by 2030. More than twice as much transmission network needs to be built in the coming five years than the previous ten, along with accompanying enabling works, connections and distribution network strengthening. ”

The benefits of deferral are that planned, strategic investment costs may be reduced or deferred, however the widespread network capacity problems that already exist will remain unresolved and DNO's will still have to find solutions or workarounds.

There is a significant risk that unplanned and ad hoc network reinforcement will still incur comparative high costs without delivering the full system benefits that could arise from an optimised strategic approach.

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

We see the growth of distributed flexibility as being vital to decarbonising the power system, and a key means of bringing down system costs and costs for consumers.

We appreciate that flexibility has a tactical role in managing a constrained grid and scheduling reinforcement but agree that it is no alternative to the planned growth in the grid now required and should not be used as a solution to permanently address local capacity problems. Instead, its primary role should be to balance the grid (and reduce the costs of doing so), increase the possible penetration of renewable energy and reduce the need for dispatchable fossil fuels.

NESO propose two main pathways to clean power in 2030, one of which relies on increasing flexibility and renewables (offshore wind) and the other which proposes less growth in renewable energy and new dispatchable plants comprising either hydrogen from low carbon sources or carbon capture and storage. We are concerned about the cost implications of both of these relatively untested approaches..

In the medium term, the smart integration of smart low carbon technologies, appliances and tariffs is also likely to result in value derived from flexibility being a core part of the consumer offer from energy suppliers.

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

We support the proposed move away from using network flexibility for deferring network investment since in the ED3 timeframe, when a growth in EV and heat pumps will require ease of connection without delay, it will not be in consumers interest to risks under-investment in network upgrades.

Network flexibility could be used more effectively for managing unexpected constraints and short to medium term system operation prior to planned upgrades. The detail of how Ofgem achieves this will come down to ensuring RESP produces clear and accurate forecasts of requirements for network upgrades that DNOs can support and buy into i.e. being achievable based on the investment requirements and market conditions. DNOs should also be required to report in more detail on the flexibility they have procured and the reasons for it being commissioned.

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

No comment.

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

Regional Energy Spatial Planning presents an opportunity to better align DNO infrastructure and business plans "downstream" (i.e. local authority spatial planning and wider local authority decarbonisation plans) and manage coordination "upstream" with the Strategic Spatial Energy Plan. The creation of Regional Energy Strategic Planners within the National Energy Systems Operator will also help to build capacity and share common approaches between regions, DNOs and other stakeholders such as local authorities.



We hope that RESP will create a common approach and methodology to business and network planning and help embed a more long-term strategic mindset within DNO's, however RESPs may have very different outcomes and outputs to address place-based issues and needs. This is the whole point of Regional Energy Spatial Plans.

It is essential that a whole systems approach is adopted in Regional Energy Spatial Plans, looking at the full economic cost for consumers. It's not clear what if any system wide analysis has been done. Converting the gas network to run off hydrogen is a very large cost that needs to be independently quantified i.e. not taking the figures from the GDNs as the basis of NSO or DSO assumptions. As discussed in response to question 3, clarity from government as to the future of the gas grid will help create certainty and a level playing field for DNO business planning.

### **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?**

Yes. We anticipate that the new strategic approach to investment will create greater certainty and support investment in the supply chain. The Winsor review<sup>2</sup> stressed that supply chains are becoming increasingly competitive globally and recommended long-term programming of projects. Adopting a strategic anticipatory approach and getting our requirements in order books early is likely to reduce the risk of short-term pinch-points. It is likely however that in the short term the changes may increase supply chain pressures, until the sector grows to meet demand.

The greatest risk is that anticipatory reinforcement may create headroom which is not needed, however this is mitigated by increased spatial modelling of future system need and should be seen against the background of a growing requirement for network reinforcement almost everywhere. Our view is the risks of this are outweighed by the risks of underinvestment.

### **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?**

Yes. Given the general need to increase grid capacity across the board, and the more detailed spatial knowledge of future system needs provided by the RESP and SSEP, this approach should reduce lifetime costs.

### **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. The 2028-33 price control period is a critical timeframe for network investment and upgrade to enable the net zero transition, but the move towards Plan and Deliver needs to be managed in a

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<sup>2</sup><https://assets.publishing.service.gov.uk/media/64c8e85219f5622360f3c0ee/electricity-networks-commissioner-companion-report.pdf>



way that keeps costs reasonable for consumers, which includes using flexibility services in an effective way to manage and operate the upgraded network.

### 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?

The price control will necessarily need to be more directive to ensure network investment aligns effectively with RESP plans.

### 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 (e.g. load, asset health, resilience), to ensure a common approach to future proofing and delivery?

This should be assessed and considered to potentially improve efficiencies of investment planning, but care should be taken to avoid unintended consequences, e.g. if one area dominates over others. Consideration should be taken of the impact of such a move on different DNOs with different assets in different conditions and circumstances.

## Responsible business

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

We need far more focus in ED3 on mechanisms that encourage DNOs to better understand the impact of their investment and services on different consumers and consider and plan delivery of fairer more inclusive networks and net zero solutions.

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

The stakeholder engagement and consumer vulnerability (SECV) incentive and CVI have been good mechanisms for reporting social obligations and publishing performance and compliance tables has

facilitated transparency. This level of reporting should at least be maintained in ED3. But, in addition, Ofgem should:

1. Require DNOs to report on their engagement with RESP as part of the stakeholder engagement process.
2. Perform some independent evaluation of the DNOs delivery of the CVI to underpin the performance tables.
3. Also require DNOs to report on their activities to leave no one behind, not simply report on CVI spend on helping fuel poor and vulnerable consumers.

### **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?**

Mandating ISGs will be a positive step forward but ISGs are not sufficient in themselves to ensure high quality and effective consumer and stakeholder engagement throughout the ED3 price control. Stakeholder surveys and more specific consultations should be maintained.

We would also urge Ofgem to consider the role of ISGs across the whole energy system. The GDNs also have stakeholder panels, and the RESP will also have stakeholder groups. To reduce the 'consultation burden' on stakeholders, we would encourage Ofgem to consider the role of the RESP in managing ISGs across DNOs and GDNs..

### **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. Deliberative research would provide more focused feedback and a route to reward/compensate consumers for the time spent feeding back on ED3 and business plans. It is important that any research approach uses a representative sample of consumers which is large enough to include any under-represented groups whose voices aren't often heard in consultation or planning processes.

### **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?**

DNOs should be encouraged to engage with those who represent excluded parties and particularly when these bodies are from the third sector, their involvement and participation needs to be compensated/paid for.

DNOs could also consider seeking views from those customers who have previously received support through their CVI initiatives. These households will be more likely to engage with the process given their positive previous experience with their DNO.

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

Ofgem should consider using its consumer archetypes<sup>3</sup> as the basis for further research and longitudinal studies associated with network regulation and investment, to ensure the voices of different types of consumers are heard during the remaining ED2 and ED3 time period.

### 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?

As mentioned in Q26, CVI and SECV have provided good mechanisms for reporting on DNOs work supporting vulnerable customers. For ED3 we need to maintain the publication of performance tables to maintain transparency, with continued reporting on DNO activities to support fuel poor and vulnerable customers. But, in addition, Ofgem should:

1. Require DNOs to report on their engagement with RESP as part of the stakeholder engagement process.
2. Perform some independent evaluation of the DNOs delivery of the CVI to underpin the performance tables.
3. Require DNOs to report on their activities to leave no one behind, to demonstrate there are tracking and understand the distributional impacts of their activities.

Ofgem should consider greater alignment between DNO and Gas Network CVIs (as set out below). However, we would be concerned about the potential disruption and negative impact of forcing DNOs and GNs to report jointly or deliver joint CVI activity, particularly with geographic boundaries not aligning and with different organisational approaches.

#### **PSR focus and targeting**

For several years there has been discussion about the need for a single cross utility PSR. We recently advocated for this in Ofgem's Consumer Vulnerability Strategy Refresh consultation. During ED3 we would like to see GD and DNOs working together to progress towards enhanced data sharing between all utilities (particularly energy and water) to improve the PSRs accuracy and reach.

We feel that there could be improvements to the targeting of CVI programmes, where possible programmes should be focussed on vulnerable customers, namely:

- Via direct referrals from DNOs or GDs to advice providers; or

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<sup>3</sup> <https://www.ofgem.gov.uk/publications/impact-assessment-guidance>

- Using data (see below) to specifically target areas where the PSR is under-represented or there's high need (due to high levels of fuel poverty / customers on the PSR).

Many of the gas and electricity networks have invested in vulnerability mapping as part of their efforts to identify vulnerable households and quantify the PSR gap i.e. how many people should be eligible relative to their current membership numbers. For example, National Grid Electricity Distribution have published the vulnerability and social indicator mapping<sup>4</sup> work that we produced for them. This data should be more imbedded in the delivery of CVI programmes i.e. to aid targeting.

The majority of CVI programmes are either delivered by professional advice service providers or smaller community partners. In some cases, organisations like CSE act as a grant making partner for the smaller community organisations i.e. providing funding to them and / or helping to manage the reporting. We see these as two distinctly separate types of programmes and as such have provided our insight separately. In future, we think it would be useful for the CVI incentive to recognise this difference i.e. potentially rewarding the differing benefits that they provide.

### **Advice provision and quality**

CSE has been delivering energy advice to households since the early 1980s. We established the first energy efficiency advice centre in 1991 and have continually championed the provision of high-quality advice. In the early 2000s we worked with several other advice providers to produce a Code of Practice for Energy Advice which was adopted by the then national network of Energy Efficiency Advice Centres (EEAC).

In terms, of the quality of advice provision we would like all CVI funded programmes to be staffed by appropriately trained advisors i.e. Energy Awareness C&Gs Level 3 as a minimum. We would also like to see consistency and standardisation of reported financial impacts. Rather than each GD or DNO determining their own set of financial impacts for measures, these should be produced centrally and agreed in consultation with advice providers. This is particularly important for behavioural change savings and retrofit measures.

In addition to improved standardisation of assumed savings across providers, we would also like better recognition of the wider impacts of advice i.e. mental wellbeing, social isolation, health benefits. At present the Ofgem assessment of value for money across CVIs focusses on £ spent on delivery vs. savings achieved. This does not capture the wider economic or social benefits. We often receive feedback from clients who tell us we were there only hope or source of support in critical times. It would be good for these benefits to feature in the assessment of CVI performance.

However, the energy market is changing significantly with the introduction of new dynamic and time of use tariffs. Many tariffs are designed to accompany the installation of low carbon technologies or the use of EVs. These tariffs may be beneficial financially, but unavailable to low income / vulnerable households due to cost or lack of understanding. We are therefore going to see a significant shift in the type of advice needed to deliver advice. We have been delivering smart energy advice since 2023. As such we have developed the training needed to upskill our advisors. We would like the wider delivery of CVI's to consider consumer needs within a smarter, flexible energy

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<sup>4</sup> <https://www.nationalgrid.co.uk/customers-and-community/priority-services/social-indicator-mapping>

system including the type of advice all DNOs provide to consumers i.e. to make sure no one gets left behind.

### **Community partner funding**

Both GDs and DNOs fund community organisations to help signpost to the PSR, provide advice to households and signpost to any additional services they provide for vulnerable customers. We oversee grants to community organisations to deliver support to vulnerable customers to three network companies. We would advocate for the following:

- It is important that these groups are given the support needed to deliver their projects, particularly training and resources like reporting templates, how to guide, peer learning and networking support.
- The reporting requirements need to be appropriate. Small community organisations do not have the internal systems (i.e. CRMs) needed to record detailed outcomes. The reporting requirements therefore need to be appropriate to the scale of funding provided.
- Many of the community organisations also deliver wider benefits such as improving mental wellbeing, reducing social isolation, improving community cohesion etc. We would like to see greater recognition for these Impacts within the assessment of CVI performance for community partners.

## **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?**

Despite the DNOs being a more trusted intermediary than energy suppliers, the current estimates suggest that the saving to DNOs from energy efficiency measures are nowhere near sufficient to payback their cost i.e. savings of 10s rather than 100s of £s. The installation of energy efficiency measures such as solid wall insulation require a complex skillset and there are significant risks if installed badly. We are already dealing with the consequences of poorly installed insulation funded by energy supplier funded schemes. The delivery of energy efficiency measures to vulnerable households should be left to local authority led schemes funded by the Government.

Alternatively, we would advocate for a demand reduction obligation (DRO) for DNOs. The DRO should provide:

- Savings that are cheaper than energy supply; or
- Offer the ability to reduce demand when energy is expensive.

This would help incentivise the market for, as yet untapped, domestic flexibility provision and also address a market failure i.e. delivering any available energy saving measures which are cheaper than energy supply. The costs of such a market-correcting intervention can be justifiably recovered through fuel bills because it should result in lower overall costs to consumers than would be the case without such an intervention.

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

No comment.

**Q35. Should the TTC also apply to domestic connection upgrades i.e. 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?**

As part of the development of the MCI, there is a strong case for requiring DNOs to prioritise support for local authority led and community energy connections given their local and social benefits.

**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?**

There is extensive consultation already underway on connections reform which should improve services for connecting customers. More transparency of the process and connection decisions is needed, and recognition of the value of local authority led and community energy generation.

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

Ofgem's proposals seem proportionate and an improvement.

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

Bespoke outputs and CVPs allow scope for DNOs to innovate and provide enhanced consumer standards. Hence we would encourage Ofgem to retain them in ED3 alongside obligating higher and more consistent basic consumer standards across all DNOs.

**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.

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

No comment.

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

No comment.

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?

This is not our area of expertise, but a 45-year asset lifetime seems appropriate.

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?

No comment.

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?

No comment.



**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? There are a couple of key factors we feel are important for ED3 to consider:**

1. Create an evaluation framework for comparing DSO performance and reporting on whole system benefits.

The DSO role and activities are important and essential developments for DNOs, but Ofgem needs to provide more direction and a common baseline for comparing DSO performance. DSOs should be reporting on their flex and investment performance based on common KPIs. We suggest that the decision not to use outturn performance metrics is revisited and a new set that align with ED3 objectives is created. DNOs can work now to improve data reliability and accuracy to be able to report in ED3. In addition, the current variation in methods and processes used by DSOs to report on network impacts, customer value and wider system benefits for the DSO performance panel makes it harder for stakeholders to compare, challenge or hold DSOs to account. Without an industry supported framework it is hard to be confident that decisions taken by DSOs today will lead to the wider system benefits planned.

2. Prioritise improving network visibility & making data available

We support the stated aim (at para 8.13) “that DSOs should continue to focus on improving network visibility and digitalisation to support the development of smart grids. The latter is key to enabling demand-side response, storage, and distributed generation to respond to market signals or direct load control.”

We know from our work with DNOs that they have very poor data on the low voltage network beyond the sub-station, making large scale roll-out of heat pumps problematic. And we know the impacts of this. Recent innovation projects like DESNZ Heat Pump Ready have been very negatively impacted. The DNO, National Grid Electricity Distribution, have very poor data on the low voltage network i.e. beyond the sub-station. It was not clear which homes were connected to which sub-station and accessing this data took a long time. We understand that the issue of poor-quality low voltage data is common to the majority of DNOs.

To effectively plan large scale roll-out of heat pumps in a concentrated area we need the low voltage network data to be available digitally i.e. ideally as a GIS spatial layer or database with UPRN. Likewise, to optimise whole system benefits we need to be able to make informed localised decisions on the best way to decarbonise our homes and businesses. It is impossible to determine the likely headroom without accurate data. This data should also be freely available. Ofgem should require all DNOs to digitise their low voltage network data as part of their transition to DSO.

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

DSOs have a key role in assessing and understanding whole system benefits and solutions. DNOs should be encouraged and incentivised to participate in RESP planning to enable them to play their role fully in delivering whole system improvements. We agree with the refocus away from deferring network investment towards whole system benefits, but we strongly advocate for a role for DSOs to demonstrate rigorously how these benefits stem from DSO markets and services, as well as the distribution of these benefits (and associated costs). This is key to being able to mitigate any emerging inequalities, provide transparency on the fairness of low carbon transition and build consumer acceptance.

There is increasing evidence that current DSO markets reward high income consumers, but there is no empirical evidence that these markets deliver value to all consumers through reduced network costs. For example, CSE's most recent analysis for NGED DSO showed a strong correlation between income and the provision of flexibility within Low Voltage networks. Flexibility revenues are more likely to be available in neighbourhoods with low levels of deprivation, and these revenues are being accessed by high income consumers. In neighbourhoods with higher levels of deprivation, DSOs struggle to procure flexibility. In ED3, DSOs must demonstrate not only that their services create whole system benefits but also demonstrate how these benefits are distributed across different types of consumers.

## 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?

We would advocate for improved data sharing across all areas. As noted above (Q48), DNOs currently have very poor data on their low voltage networks i.e. beyond the sub-station. For enablers like CSE, local authorities and community energy groups, access to accurate data on the low voltage network is critical to planning future projects. For example, retrofitting heat pumps where knowing headroom availability is crucial or identifying constrained sub-stations where there's potential for local flexibility projects (to offset investment).

Alongside incentives we would therefore like to see some mandated basic levels of data provision. Our experience accessing data on the low voltage network did not align with best practice guidance whereby network companies should treat data as "presumed open". We would like to see a list of datasets that Ofgem expect DNOs to provide without the need of further GDPR assessment.

We would like the incentives regime to also consider DNOs role as enablers, particularly around flexibility and network planning. DNOs should be encouraged to make data open source and make tools available that help enablers like CSE to support the transition to net zero. We are aware of tools such as NGED's LAEP+ tool which can reduce the cost of strategic planning for local

authorities and community energy groups (who are keen to design local projects that help deliver net zero).

The consultation notes the risk in siloed development of digital products and services in the ED3 period. There are many datasets which could be generated nationally (with input from DNOs) and then shared at no or low cost with stakeholders. Rather than expecting each DNO to generate similar datasets which they then share (or do not share) with stakeholders, we would advocate for more centralised data production, standardisation and distribution, with a platform that is easy for local authorities, communities and enablers like us to use. This should support the activity of the RESP in its assessment of system need and reduce the cost of LAEPs for local authorities.

As highlighted in the consultation greater data sharing can be achieved through the adoption and utilisation of the Data Sharing Infrastructure (DSI) and the Smart Optimisation Output (SOO) licence condition. We would like to see greater standardisation and consistency across DNOs. The performance of leading DNOs should be the benchmark for others to adhere to. For example, it is notable that UKPN has an open data platform and a data dictionary for users to access and use. We have witnessed a number of local authorities (in the UKPN distribution area) LAEP procurement exercises reference the need for any digital outputs to be compatible with UKPN's data dictionary. This clarity is useful for stakeholders, but the lack of consistency across DNOs is an issue for stakeholders like the RESP who need to assess needs that span DNO boundaries.

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

Encourage DNOs to value partnerships with wider stakeholders (some of which already hold relevant data and digital expertise that could enhance DNOs own capabilities and capacity). Internal digital improvements can come more quickly when delivered in partnership with experts. Set targets for digitisation and require DNOs to report against them.

## 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?

No comment

## 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?

Yes incentivising innovation within ED3 needs to evolve, particularly with the basis of ED3 investment shifting to Plan and Build and the speed of delivery of network upgrades needing to increase. Currently NIA and SIF work well for technical innovations, but less well for business model innovation. Process or social innovations are rarely funded, even though innovations in these areas are key to scaling technology uptake and facilitating rapid system change. Therefore, funding innovation that focus specifically on driving the speed and scale of change would be welcome

alongside the funding for innovating technical solutions. For example, innovation in how DNOs work with local authorities, community energy groups and RESP will be needed, but hard to fund under the current funding regime. The new focus on whole system solutions will help, but wider societal change also needs to be included in the scope of innovation.

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

SIF and NIA have provided effective mechanisms to encourage network-led investment in innovation, but innovations remain siloed within DNOs, there is limited sharing of innovation results. The proposals suggested by Ofgem should encourage results to be translated in a faster way to Business as Usual. However, increasing the monitoring of NIA-funded projects is likely to increase costs and slow down project delivery. Of the two funding mechanisms, NIA is more agile due to its reduced monitoring requirement and increased monitoring needs to be balanced against reduced agility in delivery.

From our experience, the translation into BAU fails when there has not been a real champion within the business who is properly involved in scoping the innovation project. Another challenge is the split between DNO and DSO operations. This particularly impacts projects that are innovating around consumer vulnerability (DNO owned) and flexibility (DSO owned). The split between DNO and DSO can make simple data sharing hard, let alone adoption of a cross-cutting solutions. Therefore Ofgem could look at network governance of innovation projects, perhaps incentivise strong ownership of a project jointly by the DNO and DSO delivery teams, not just innovation teams.

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

No comment.

#### **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?**

No comment.

**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?**

DNOs need to develop a stronger understanding of the climate resilience and impacts on different communities of climate change (and ensure these are recognised in RESP plans) to prevent further inequalities emerging because of climate adaptation and resilience investments.

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

No specific comments. Not our area of expertise.

**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?**

We have no comment on the suitability of current services but agree that it is essential the consumers continue to receive a reliable service in the face of climate hazards. By mandating reporting on distributional impacts and plans and actions to 'leave no consumers' behind, DNOs would be incentivised to better understand the vulnerabilities of different communities including disparities between different communities and their resilience to climate hazards.

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

We strongly agree with retaining and strengthening the main components of the environmental framework from ED2.

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

This is not CSE's area of expertise, but Ofgem's proposals appear sensible and proportionate.

**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?**

DNOs and the energy industry more widely have a number of graduate programmes and initiatives to support the development of young people within the sector. However, there is a gap and urgent need for more attention on attracting school leavers and pre-graduate level schemes to ensure we have the workforce needed for delivery of our future net zero energy system. The consultation makes it clear that workforce resilience is one of the major threats to reinforcing the grid rapidly

enough to meet the clean energy challenge. We suggest that in addition to efforts by the DNO's themselves, there is a role for government in creating a workforce strategy, to increase the supply of skilled workers.

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

No comment

**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?**

No comment

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

No comment