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Ofgem
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By email only to: FWP@ofgem.gov.uk

10 February 2025

Dear Sir/Madam,

Draft Forward Work Programme 2025/26

Thank you for the opportunity to comment on Ofgem's draft Forward Work Programme for the 2025/26 regulatory year. This letter should be treated as a consolidated response on behalf of UK Power Networks' three licensed distribution companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. We are Great Britain's largest electricity Distribution Network Operator (DNO), dedicated to delivering a safe, secure, and sustainable electricity supply to 8.5 million homes and business.

The Forward Work Programme presents a well-defined set of priorities for the upcoming year, with the understandable emphasis on achieving Clean Power 2030. Ofgem's agenda is extensive, and the Forward Work Programme aligns well with our expectations.

We are committed to working closely with Ofgem throughout RIIO-ED2 and in the development of the RIIO-E3 framework. In the context of our role as a DNO we have provided comments on specific areas related to Ofgem's strategic approach and its delivery for this year:

Regulatory framework for energy planning and investment in energy networks

The UK's Net Zero and Clean Power 2030 goals are steering energy policy towards a more strategic, centrally planned approach. This is evident from the creation of NESO, its duty in producing strategic energy plans, and from the proposals on connections reform. Balancing the role of markets within a more planned system will be an ongoing challenge and the final outcome of REMA in summer 2025 will set new directions for incentivising the market to respond to the centrally planned vision.

Whilst Ofgem's RIIO-ED3 Framework Consultation considers a possible shift from an outputs-based framework to one focused on planning and delivery, with predefined inputs based on future assumptions, it is our view that the case for wholesale change to the regulatory framework does not exist as the benefits it has delivered to date are still pertinent today and especially so in the future.

We believe the current framework which, combines ex-ante regulation, output frameworks, and strong incentive mechanisms, effectively promotes efficiency and innovation whilst allowing investment to be responsive to demand. Switching to an inputs-based approach would reduce



efficiency, the incentive to innovate and limit agility in delivery. This risks wasteful or mis-directed investment and higher than necessary customer bills. Given the scale of future investment needed in the networks, Ofgem should continue to focus on replicating the dynamics of competitive markets to incentivise and reward high performance, not moving in the opposite direction of inputs and rate of return regulation.

Reforming the connections queue

Distribution networks have a critical role to play in connecting the technology that will support our country to realise national strategic goals, including Net Zero. The reform of the connections process is one of the fundamental enablers to meet Clean Power 2030 targets. UK Power Networks is fully engaged in the development of this reform with NESO and wider stakeholders to support the transition to a Net Zero energy system and prioritise projects that are ready to connect. We welcome the engagement from Ofgem to date on important areas such as the distribution licence changes required to support our role in the process and look forward to continued close working to ensure successful implementation this year.

Incentives for demand side response and wider flexibility

We support Ofgem's commitment to incentivising the deployment of demand-side response during 2025/26. While the RIIO-ED3 Framework Consultation suggests that DNOs should reduce the procurement of flexibility to defer investments and instead focus on building networks that support flexibility, we continue to believe that flexibility will play a significant role in facilitating Net Zero. In the longer term, the implications of refocusing the requirements of when Distribution System Operators (DSO) seek to make use of flexibility, will need to be fully understood and consulted upon. DSO demand for small-scale flexibility currently offers providers return on early-stage investment, whilst allowing further opportunity to operate and support national system balancing markets. This allows market players to 'stack their revenues' which aligns with one of Ofgem's objectives within its Forward Work Programme.

We believe that the lowest cost to Net Zero, is best when flexibility market players can partake in both markets. Without flexibility in the DNO's toolkit, there would be greater exposure to supply chain shocks or unexpected shifts in customer demand – both of which have been observed in recent years. A framework that does not facilitate flexibility at distribution level is likely to result in higher costs to consumers and risks mis-directed investment. Ofgem will need to carefully consider these dynamics to ensure that future policies strike the right balance between achieving Net Zero targets, facilitating flexibility, and ensuring customers are not exposed to higher than necessary costs.

Customer Services

We fully support Ofgem's commitment to improving customer service. We believe that customer expectations and interactions with DNOs are evolving rapidly, driven by low carbon technologies like electric vehicles and heat pumps. As these changes continue, DNOs will need to innovate further with new customer journeys, service offerings, and IT solutions to ensure services remain fast, simple and in line with customers' expectations. Ofgem should focus on ensuring strong incentives remain in place to ensure DNOs maintain excellent customer service, including developing a new powerful incentive for measuring the service levels provided to major connections customers. This is vitally important given their role in achieving Net Zero. UK Power Networks is committed to working with Ofgem to ensure the delivery of the best possible service to all its customers.

We hope that you will find our feedback helpful and look forward to working and sharing further ideas with Ofgem in the coming year.

If you have any questions, please do not hesitate to contact me.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'James', followed by a long, horizontal, wavy line.

James Hope
Head of Regulation & Regulatory Finance
UK Power Networks