# Chartered Institute of Housing response to Ofgem’s consultation on the ED3 regulatory framework

## Introduction and summary of our response

The [Chartered Institute of Housing](https://www.cih.org) (CIH) is the professional body for people who work or have an interest in housing. We are a registered charity and not-for-profit organisation, and as holders of a royal charter, we have a duty to act in the interest of the general public as well as our individual members.

CIH’s interest in ED3 stems from conversations with our members about the role of Distribution Network Operators (DNOs) in their work. Many of our members work in housing development and retrofit roles, especially in the social housing sector for local authorities and housing associations. Most social housing providers plan to decarbonise their homes by 2050 at the latest, and they also play a central role in constructing new social and affordable homes.

In our regular engagement with our members, we have become aware of some of the ways that DNOs support and enable these important objectives. We have also been told about some of the challenges our members have faced working with, and receiving services from, DNOs. We are submitting some of this evidence to the present consultation in the hope that the ED3 regulatory framework can deliver significant co-benefits for the twin imperatives of achieving net zero and tackling the housing crisis.

In what follows, we have provided specific responses to selected consultation questions. We are also responding separately to Ofgem’s parallel end-to-end review of the connections process. Our main points in response to this consultation are as follows:

* We broadly agree with Ofgem’s characterisation of the wider context for ED3. By the second half of ED3, social housing providers will be accelerating their installation of low-carbon heating technologies, especially heat pumps.
* Furthermore, we think a second important contextual factor for ED3 is the government’s pledge to build 1.5 million new homes this parliament. This implies the completion of 340,000 new homes in 2028/29, which is around a 40 per cent increase on current levels. All of these homes will need grid connections, and DNOs therefore have an indirect but important role to play in tackling the housing crisis and delivering the government’s Plan for Change.
* We agree DNOs could have a role in delivering energy efficiency measures, and encourage Ofgem to explore this further. However, we think DNOs can play more of an enabling role than a direct delivery role, with housing associations and local authorities best placed to undertake direct delivery of measures. Instead, we think the focus should be on areas where DNOs can work in partnership with other regional actors to fill gaps in current local and national provision, especially in cases where funding models are most likely to be progressive, such as:
  + Co-funding the provision of energy efficient white goods to low-income, fuel poor, and/or vulnerable households, including social housing residents.
  + Co-funding the delivery of energy efficiency upgrades to low-income, fuel poor, and/or vulnerable households, including social housing residents, that are being fitted with a heat pump.
* We would welcome the inclusion of cable upgrades and unlooping services within the TTC, which would incentivise the standardisation of existing good practice.
* Lastly, while speed is clearly vital to the connections process, we would welcome further incentives to improve performance outside of the metrics associated with speed; that is, the two reputational timeliness metrics for major connections, and TTC and TTQ for minor connections.

Contact: Matthew Scott, senior policy officer, CIH: [matthew.scott@cih.org](mailto:matthew.scott@cih.org)

## 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 broadly agree with Ofgem’s characterisation of the wider context for ED3. We would like to add two comments.

Firstly, we agree with Ofgem’s characterisation of the context related to heating. While disaggregated statistics are not available, we estimate around 1.3 per cent of all social homes have a heat pump, based on analysis of the [English Housing Survey](https://www.gov.uk/government/statistics/english-housing-survey-2022-to-2023-energy). However, our engagement with our members suggests this figure will begin to grow ahead of and during ED3. The government’s Warm Homes: Social Housing Fund (WH:SHF) contains a non-match funded incentive for social housing providers to install heat pumps (and other low-carbon heating technologies) in their homes, and we expect a significant number of applications to the fund to take advantage of this incentive. If successful, we might expect to see subsequent waves of the WH:SHF, beginning in 2028, expand this incentive. This means we will likely see a growing number of heat pump installations in social housing from 2028.

Between 2028 and 2030, our engagement with our members suggests heat pump installations, while growing, will remain confined to a relatively small proportion of social housing. Providers intend to prioritise energy efficiency measures between now and 2030, while using the WH:SHF to pilot the installation of heat pumps in their homes. However, from 2030, some social housing provider business plans start to see a significant increase in the number of heat pump installations. In the latter half of ED3, we are therefore likely to see a further increase in the number of heat pump installations in social housing. Ofgem’s broad articulation of the context for heat in ED3 is therefore true of the social housing sector.

Secondly, there is another material factor we would like to highlight: the government’s housing targets. The government has committed to building 1.5 million new homes this parliament. This is a necessary commitment that CIH supports. Currently, homelessness is at record levels, and one in five children are living in overcrowded, unaffordable, or unsuitable homes. The core driver for this untenable situation is a lack of housing supply, especially the supply of social and affordable housing. If the intersecting homelessness, housing, and health crises are to be tackled effectively, we need to see a rapid increase in the number of new homes being built between now and 2030.

In addition, we know that many local authorities and housing associations are building new homes to zero-carbon standards. They are prioritising the commissioning of heat pumps, solar PV, and electric vehicle (EV) chargers in their developments in anticipation of the introduction of the Future Homes Standard. They are doing this because they recognise the importance of low-carbon homes for protecting current and future social housing residents from fuel poverty. According to [analysis](https://www.cih.org/media/ox2gxc55/ukhr-autumn-briefing-2024.pdf) published by CIH, in 2028/29 (i.e. at the beginning of ED3), we will need to build 340,000 homes, rising to 350,000 homes in 2029/30, to meet government targets. This is an increase of approximately 100,000 from current levels. All of these homes will require grid connections within a short period of time (i.e. in this parliamentary term).

We think this is a context that needs acknowledgement in ED3, precisely because the speed and quality of grid connections is a vital enabler for the timely occupation of new housing developments. Delayed connections to the electricity grid necessarily means delays to the occupation of new social homes, which in turn lengthens the amount of time people will spend in temporary accommodation, at exorbitant cost to the public purse.

We recognise that housing development is traditionally a policy area outside of the scope of electricity network regulation, and Ofgem’s remit more widely. However, the government’s new mission-led approach to tackling societal challenges requires [acknowledgement, innovation and transformation](https://www.ucl.ac.uk/bartlett/public-purpose/sites/bartlett_public_purpose/files/mission-oriented_industrial_strategy._global_insights_2024.pdf) across all relevant sectors and institutions. The government has also [emphasised](https://www.gov.uk/missions/economic-growth), as part of its new Plan for Change, that the construction of 1.5 million homes this parliament will be a core driver of its broader economic growth mission. We therefore encourage Ofgem to consider the overlap between housing, net zero, and electricity network regulation in ED3.

**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?**

We think there is a case for DNOs having a role in delivering energy efficiency measures to homes. DNOs already play an indirect role in delivering energy efficiency measures to homes, inasmuch as they are involved in providing enabling and ancillary services to homes that are retrofitted with insulation and low-carbon heating technologies. This includes the provision of cable upgrades and unlooping services, as noted in Q35, and we have provided further evidence on this point in our response to the end-to-end connections review. We do not have a firm view on what this role might look like. However, we would make the following observations and suggestions, which relate to homes only, not businesses.

In our view, the main actors responsible for the delivery of energy efficiency measures in homes should be housing associations and local authorities. This is because they are best placed to know the stock condition and energy (in)efficiency of homes within their remit; their residents and communities; and how to deliver retrofit programmes in a way that meets local needs. They are also well-placed to access match and gap funding, and coordinate relevant internal services (e.g. adult social care) that can be essential to delivery in some circumstances. The present government has taken some welcome steps to stabilise and improve the financial capacity of local authorities and housing associations, which will further strengthen their ability to deliver energy efficiency measures.

However, we think there could be considerable value in incentivising DNOs to work in partnership with local authorities and housing associations that are located within their respective network areas. We think the focus could be on areas where DNOs can add value to the process. By this we mean DNOs could be incentivised to fill gaps in funding, resource, and capacity that are not currently provided for in local or national energy efficiency programmes, and/or which present common barriers to the scheme viability. Specifically, there are two areas that might be worthy of further investigation:

* *Co-funding the provision of energy efficient white goods to low-income, fuel poor, and/or vulnerable households, including social housing residents*. [Research](https://endfurniturepoverty.org/research-campaigns/furniture-provision-in-social-housing/) by End Furniture Poverty (EFP) shows that only 2 per cent of social homes are let as furnished or partly furnished, compared to 29 per cent in the private rented sector. While there are different (although often insufficient) local authority and housing association programmes for white goods provision in new social housing tenancies, there is a more specific provision gap for low-income, fuel poor, and/or vulnerable households when an appliance breaks. DNOs could partner with housing associations and local authorities to co-fund replacement white goods in such situations, ones that are highly energy efficient, have lower running costs, and, in the context of ED3, able to participate in demand side flexibility. This could have benefits for households and the grid. We are aware ideas like this have been [proposed before](https://www.nea.org.uk/wp-content/uploads/2020/11/NEA-Response-to-Ofgem-RIIO-ED2-SSMC-Final-Oct-20.pdf), but feel we may be in a unique position as the professional body for housing to support the development of a model that might work. We would welcome the opportunity to engage further with Ofgem on this.
* *Co-funding the delivery of energy efficiency upgrades to low-income, fuel poor, and/or vulnerable households, including social housing residents, that are being fitted with a heat pump*. As noted in our response to Q1, most social housing providers do not plan on installing heat pumps at scale until the latter half of ED3. Our research with providers has identified fabric efficiency as a barrier to the deployment of heat pumps in social homes. Social housing providers want to ensure that their homes have a level of fabric efficiency that ensures when a heat pump is installed, it significantly drives down the cost of heating for their residents. However, at present this is a considerable financial challenge, especially in older homes, and we are aware of cases where providers have been quoted in excess of £70,000 for the installation of complex wall insulation measures. There could be a role for DNOs co-funding complex, costly insulation measures where they are an enabling measure for a heat pump. This would remove a critical barrier to heat pump deployment, and reduce heat demand, lowering the added demand on the grid. There may be particular value in this approach when whole estates, terraces, high-rise buildings, or blocks are being retrofitted with heat pumps. Co-funding could be provided in advance, with DNOs contributing to projects ahead of time, or retrospectively, whereby providers could receive a payment from a DNO after reduced demand has been delivered from a retrofit project.

In making these suggestions, we note and agree with the views of other stakeholders, that many of these initiatives have been piloted by DNOs before. Where possible, we agree that any role DNOs play in delivering energy efficiency measures should be built on previous experiences and initiatives.

With regards to funding, we recognise this is an area of considerable difficulty. Electricity standing charges have risen rapidly in the last three years, from approximately £86 to £186 per annum for a typical household paying by direct debit. We support Ofgem’s proposal, laid out in its options paper on standing charges, to undertake a wider review of the allocation of network costs on standing charges. However, we acknowledge that incentivising the DNOs to provide enabling support with energy efficiency measures would add further pressure to consumer energy bills if they were funded through the standing charge.

If a role is envisaged for the DNOs in delivering energy efficiency measures in any form, the guiding principle must be that the funding mechanism is progressive, i.e., delivers net-benefits for low-income and fuel poor households.

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

Yes, we believe it should. As the installation of low-carbon heating technologies accelerates in ED3, the provision of high-quality, timely upgrades to home infrastructures will grow in importance.

We have provided more detail in our response to Ofgem’s end-to-end connections review on this matter, but would here highlight that some of our members have experienced challenges with securing cable upgrades and unlooping services from DNOs. For example, one of our members, working at a housing association with over 30,000 homes, told us:

“*On low-carbon technology we've got issues with the old grid infrastructure, so a lot of our properties are on looped services, which means they need de-looping and maybe new meters […] So there's a lot of work to do there and our DNOs are not really set up to do that so they give it to their small works teams. We get a quick design letter off and it's not really consistent. So there's a lot of work to do with our DNO before we even get the contractors in*.”

In contrast, we are also aware of good practice in this area, with unlooping services delivered quickly and seamlessly by DNOs, especially in cases where social housing providers have engaged DNOs early in retrofit projects.

We therefore think there is a case for expanding the TTC to cover these services. Doing so should encourage the standardisation of good practice and the minimisation of issues, such as the one experienced by our member, and quoted above.

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

**and**

**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?**

We have responded separately to the end-to-end connections review, and note Ofgem’s preference to receive detailed feedback on the connections process through that review, not through the present consultation on ED3.

The overarching point we would make in relation to ED3 is that while speed is vital, we would welcome further incentives to improve performance outside of the metrics associated with speed; that is, the two reputational timeliness metrics for major connections, and TTC and TTQ for minor connections. This includes overall quality of service, early transparency around likely connection costs and timelines, and visibility of data (in other words, the areas noted in 7.52. of the consultation document). We also think there could be value in reintroducing qualitative feedback mechanisms for major connections customers. This would help to incentivise the avoidance of some of the challenges our members have experienced when seeking minor and major connections for low-carbon technology retrofits and new housing developments, respectively.

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Contact: Matthew Scott, senior policy officer, CIH: [matthew.scott@cih.org](mailto:matthew.scott@cih.org)