

Network Price Controls
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ED3 Sector Specific Methodology Consultation

We welcome the opportunity to respond to the ED3 Sector Specific Methodology Consultation. This is a non-confidential response on behalf of the Centrica Group.

We are not responding to all the questions in the consultation. Instead, we wish to provide high-level comments on several key areas that we believe are critical to delivering a successful ED3 framework.

Investing for the Energy Transition

Centrica's purpose is "Energising a greener, fairer future" and we are therefore supportive of the guiding principles and objectives that prioritise Net Zero delivery, whole-system value, and transparency. ED3 must support a system that puts customers at the heart of the transition, ensuring that network price controls deliver long-term value for money for consumers.

We support the use of transitional Regional Energy Strategic Plans (tRESP) outputs to provide consistent strategic inputs, helping align DNO planning with regional decarbonisation pathways and strengthening the link between strategic plans and network investment. However, we have some concerns about the validity of tRESP projections, particularly how demand is represented in its data collection and engagement processes. tRESP relies heavily on Future Energy Scenarios and DNO datasets for quantitative inputs while excluding local datasets that are critical to accurately capturing regional demand patterns. Therefore, we ask that tRESP outputs are transparent, timely, and sufficiently flexible to reflect local variations. DNOs should retain the ability to explain justified deviations where local evidence differs.

Connections

Connections to the distribution network are a critical enabler of the Net Zero transition, and Centrica fully supports reforms that simplify and accelerate connections for all customer types. Timely demand connections are particularly important for DNOs to drive industrial and commercial decarbonisation and enable the rapid rollout of low-carbon technologies in

homes. Delivering an efficient, customer-focused connections process will therefore be a defining measure of success for ED3.

In this regard, we appreciate Ofgem's swift incorporation of feedback from the End-to-End review and we encourage continued focus on maintaining this alignment. It is essential that any changes to the connections framework proposed in ED3 are assessed and clearly communicated in terms of their interaction with the End-to-End review and related processes, such as Transmission Impact Assessments. This will help avoid unintended consequences and ensure a coherent approach across the whole system.

We agree that the current split of 'minor' and 'major' connections is too simplistic and does not reflect the range of connections emerging at the distribution level. While there is no perfect way to categorise connections, we believe a cleaner approach is to base definitions primarily on technical complexity, such as voltage level and asset works required, with secondary consideration for customer class. This would provide greater clarity and consistency for customers and network operators.

On incentives, we support continued refinement of connection incentives to drive improvements in timeliness and consistency. However, such metrics, such as the Time-to-Connect (TTC) metric, should adjust for project complexity and third-party dependencies to ensure fairness and feasibility.

Energy Efficiency

Based on the limited detail set out in ED3, we cannot form a strong opinion as it is unclear what exactly is meant by DNOs playing a "bigger role" in the delivery of energy efficiency and low carbon measures. We would be interested to understand what a potential coordinator role for the DNOs could look like in practice. However, we do not believe DNOs are the right parties to deliver low-carbon technologies (LCT) into people's homes. We believe this is primarily a role for a large range of commercial providers. Competition is essential to drive down costs for consumers and ensure innovative, fit-for-purpose customer propositions.

By contrast, DNOs are not structured in a way to provide installation services into consumers' homes. They do not have dedicated customer proposition teams, the engineering workforce required for LCT installations, or the appropriate customer contact infrastructure to support household engagement. Their core expertise lies in network operation and planning, not in delivering consumer installations. Any approach should therefore focus on enabling and coordinating rather than direct delivery, ensuring that competitive markets continue to play the primary role in driving forward efficiency for consumers.

Flexibility

We agree that there needs to be a stronger focus on network build-out during this price control period. However, allowances provided to DNOs must reflect practical constraints on how much reinforcement can realistically occur within this timeframe. Therefore, we support reinforcement of the network alongside continued use of market-procured flexibility, as both will be essential during ED3. Ofgem should not neglect the potential for domestic and other consumer-led flexibility to support local network operation over this price control period, as it will play an essential role throughout the Net Zero transition and cannot simply be "turned back on" once the build-out is complete. DSOs must therefore continue to objectively

compare options for resolving network constraints to identify solutions that deliver the greatest consumer value.

Flexibility in this context should refer to demand-side flexibility provided willingly by consumers, a key tool for managing network constraints and enabling efficient system operation. We do not support flexibility that imposes significant or unpredictable constraints through connection agreements, as this can undermine the business case for assets seeking to connect to the grid.

Furthermore, Active Network Management (ANM) should only be used to manage constraints caused by connecting generation and should not become a source of free flexibility for wider network management. ANM schemes should be restricted to scenarios where using commercial flexibility services is infeasible and should be time limited. We are concerned that ANM, as a zero marginal cost flexibility source for DNOs, significantly undermines the business case for investing in flexibility services. Limiting ANM to exceptional cases will help maintain a healthy flexibility market and ensure fair competition.

Voltage management

We are supportive of improved monitoring and enhanced management of voltage on the network to minimize instances where devices such as electric vehicle chargers and photovoltaic inverters disconnect due to high voltages. This issue is already impacting the operation of existing devices and risks becoming a blocker to further rollout of low-carbon technologies. Addressing voltage challenges is therefore critical to ensuring customer confidence and enabling the energy transition.

However, we caution against DSOs providing voltage flexibility as a balancing service to the NESO, as this risks the DSOs exploiting their monopoly powers. Regulatory protections should be in place to prevent DSOs from offering balancing services in competitive markets or in instances where these services can be provided commercially, unless clear consumer benefit can be demonstrated. Allowing DSOs to provide these services, without limit, could flatten incentives for companies to invest in domestic flexibility services and develop innovative, attractive products for consumers, ultimately undermining competition and consumer value.

There is limited detail on how NESO would dispatch DSO flexibility from voltage management from primary substations, and none of the options have been impact assessed. Without prejudice to our opposition to this, should Ofgem decide to take forward any of the Options 1-4, NESO must consult market participants on implementation, including on how any dispatch is positioned relative to the commercial open market and any potential impacts on commercial flexibility providers. The Market Facilitator would also need to be involved, not least to ensure that primacy decisions are fair and transparent.

Although we remain fundamentally opposed to Ofgem permitting the use of DSOs' regulated assets in the competitive balancing service markets, a variant of Option 2 that allowed NESO to call on the service in system stress situations when all market options had been exhausted, but before having to take emergency actions, would be least distortive.

Finance

We assume that Ofgem will set the weighted average cost of capital (WACC) to appropriately remunerate the DNOs for the overall net systematic risk they face, thereby taking account of measures that reduce their risk exposure. We encourage Ofgem to use an

appropriate set of comparators for deriving parameters such as the various inputs into the Capital Asset Pricing Model. Those comparators necessarily must be exposed to the same regulatory regimes as the DNOs are exposed to, to ensure that similar levels of systematic risk are accounted for. Ofgem should set the WACC will be set at a level that is sufficient but no more than necessary to attract investment to the sector and, therefore, we assume that further reducing the allowed return will have a negative impact on investor sentiment. We believe that it is important that the allowed return is fair to both investors and consumers.

More widely, as with all Ofgem's decisions on network and other charges, it is essential to avoid methodological decisions that lead to abrupt or unpredictable changes, as these create significant regulatory risk for both suppliers and consumers.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

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