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By email only: ED3@ofgem.gov.uk

Re: ED3 Sector Specific Methodology Consultation

Executive Summary:

E.ON welcomes the clarity of Ofgem’s ambitions in relation to the ED3 price control period, as set out within this Sector Specific Methodology Consultation (SSMC), and in their prior ED3 Framework Decision.

We are supportive of the aspiration that this will be “supported by a stable and predictable financial framework” - this being of paramount importance not only to stimulate investment, but also to reduce supplier risk in recovering these costs.

The key points we make in this response are:

1. Suppliers need **early warning about the scale of costs** allowed in ED3 and the timing of these costs to avoid the price shock seen in RIIO ET3.
2. It is important to deliver the network needed for a cleaner lower cost electricity system at best value for customers, with a focus **on limiting the need for significant price increases** in the near term.
3. **A level playing field for flexibility is needed.** Our vision is for Ofgem to enable DSOs to engage in commercial flexibility solutions at scale. This should include a long-term¹ view of network need and optimising of the associated build using flexibility to its full potential. It is our view that, if restrictions on the structures of the price control are addressed (such as length of time for which a DSO can contract), flexibility will be the success factor in DSOs managing both costs and the limitations of build such as supply chain, skills, etc.
 In ED3 Ofgem should recognise this potential and ensure it is not restricted:
 - **Ensure there is a mechanism for flexibility solutions to run across price control periods** - this would enable EON, and others, to invest and scale our solutions to the

¹ At least 15 years

benefit of both customers and the system. The externally imposed 5 year timescales should not restrict optimised delivery.

- Ensure networks retain the ability to optimise network build, with flexibility not being removed. This can be achieved by focusing on outcomes (i.e. optimised build), not inputs (e.g. no use of flexibility to strategically time network upgrades)
- Re-consider financial incentives for flexibility such as enabling 'right-sizing' the network (where this is in the interests of consumers)
- Consider additional incentives where flexible solutions also improve fuel poverty

All of the above would enable us to scale an innovative DSO trial we have undertaken in collaboration with NpG.

We expand on each of our key points in turn below and also include some more information on our DSO trial.

Early notice of ED3 Costs:

Suppliers have faced significant difficulty in being able to confidently forecast RIIO ET3 costs, due to a lack of early and transparent communication as to the scale of these. This has resulted in many suppliers offering loss-making fixed tariffs – a situation which should be avoided under ED3.

Based on ED3 published literature, and the precedent of fast money set by RIIO ET3, we expect that there could be a steep increase in DUoS charges as a result of Ofgem's proposals. However, there is no further detail as to the magnitude, nor the phasing of these.

We would also like to point out that there is a risk DUoS tariffs will be re-opened as a result of the anticipated changes under ED3. Since DNOs provide advanced notice of tariffs c.14 months in advance, those for the first year of the price control will be set well before even the Draft Determinations are published. In previous price control periods this has not presented a significant issue, since revenues were expected to be relatively flat. However, if large increases come through which are not reflected in the pre-set charges, there is a real risk that DNOs will ask for a derogation to reopen tariffs. This would, in turn, increase the need for suppliers to hold risk premia which may result in higher customer prices.

Consumer Impact of increases in tariffs:

We strongly endorse Ofgem's statement that "the approach taken must continue to work in the best interests of consumers, paving the way for a cleaner and lower cost energy system that supports the wider electrification of the economy". Whilst we expect that efficient investment in networks will pave the way for a lower cost energy system over time, it is worth reiterating the expected short-to-medium term cost increases Ofgem's ED3 proposals are likely to have on the end customer². It is imperative that the current affordability crisis is not exacerbated through these measures where this could be avoided. Upwards price pressure could serve to undermine the role out of green, flexible, electrified demand.

Flexibility:

² This is particularly relevant when considering the bill impact of transmission and gas price controls (especially ET3): <https://www.ofgem.gov.uk/sites/default/files/2025-06/RIIO-3-Draft-Determinations-Impact-Assessment.pdf>

As set out in our response to Ofgem's ED3 Framework Decision, we have concerns that Ofgem's proposals risk the development of valuable flexible solutions being restricted or under-utilised within the next price control period. Flexibility has the potential to help optimise network build out and manage cost increases by filling in the gaps in network investment - proving the case for flexibility could, and should, reduce the need for network investment overall.

We have elaborated on this within our responses to the below questions, and would like to make the following comments within the context of the Executive Summary:

E.ON's Flexibility Position:³

To address these concerns, we primarily suggest that Ofgem:

- Enable greater flexibility revenue certainty for DSOs through encouraging contracting spanning across price controls, and for longer than a 5-year period (please see the footnote for more information)⁴
 - Doing so would help mitigate slower than envisaged anticipatory network build, owing to supply chain pressure/skills shortages.
 - It would also de-risk flexibility investment, reducing costs for networks and consumers.
- Ensure networks retain the ability to include the use of flexibility to strategically time network upgrades and other improvements as part of their ED3, and longer-term, plans where this is in the interest of consumers.
- Consider allowing for financial incentives⁵ which enable DNOs to 'right-size' the network, allowing flexibility to play an enduring role in meeting rising demands for electricity over the ED3 period and beyond.
- Provide additional incentives for the procurement of flexibility, and delivery, where:
 - it can be implemented alongside savings for households, particularly those in fuel poverty
 - it can enable householders, especially the fuel poor, to participate in the benefits of the energy transition through the installation of low carbon assets such as storage
- Move away from specifying likely flexibility use cases on the basis this has created ambiguity within industry, leading many (including DSOs) to look to minimise future investment risk through limiting their flexibility investments to those which most align with these stated examples.

³ For more detail on these, please see our response to Question 67

⁴ This could take the form of allowing for flexibility cost recovery as a projected expenditure item that spans multiple price controls, as Ofgem has done for categories of REPEX in previous decisions. For example, in the context of the ongoing price control arrangements, in its RIIO-2 Framework Decision, Ofgem had explicitly stated: 'Where the cost profile of work spans multiple price controls (such as for the gas mains replacement programme), we will consider taking a long-term view of costs in setting allowances.' See: Ofgem (2018), RIIO-2 Framework, Decision, para 5.15; accessed on 24 November 2025 at: https://www.ofgem.gov.uk/sites/default/files/docs/2018/07/riio-2_july_decision_document_final_300718.pdf

⁵ e.g. as an ODI-F and/or reward within the business plan incentive

We believe that these actions would generate cost savings that flexibility service providers (FSPs) can pass on to DNOs, and therefore customers. Furthermore, our proposals would unlock greater levels of private investment, freeing up reliance on customer bills / taxpayers' money.

These measures are also consistent with Ofgem's duty that efficient network cost savings protect consumers' interest, whilst simultaneously supporting its net zero duties through the incentivisation of green electrification.

Case Study:

To illustrate the untapped potential of flexibility with the right framework mechanism in place, we have included a case study for Ofgem's consideration in the following section. Please see Appendix for more detail.

E.ON has been trialling a new model of 'firm flexibility' provision, with multi-year bilateral contractual arrangements, that provide a DSO with flexibility assets upon which it can rely.

This meets the DSO's need for certainty over dispatch, and E.ON's need for revenue certainty, allowing flexibility investments to be made in unserved locations.

Under this scheme, the flexibility asset location is selected to provide the DSO with flexible energy within a Constraint Management Zone (CMZ) whilst also supporting customers in fuel poverty as part of a just energy transition.

Customers directly taking part in the scheme benefit through the receipt of a rebate on household bills in return for hosting the flexibility asset.

In order to deploy similar models at scale during ED3, a key regulatory barrier must be addressed: namely the contracting duration limitation that arises from a 5-year control period.

This is essential to unlock the full potential of flexibility services across all necessary use-cases and locations in ED3 and beyond, delivering benefits to the system, consumers, and vulnerable customers alike.

According to independent analysis from Oxera, almost the entirety of headroom gaps at a substation level to 2035 could be addressed through the deployment of firm flexibility⁶

This use case emphasises the following:

- The potential for firm flexibility (i.e. guaranteed availability from the flexibility service provider (FSP), with certainty of dispatch by the DSO) to make the energy transition fairer/more accessible to everyone through immediate bill savings for its fuel poor participants, whilst reducing overall system costs.
- The benefits of alternative asset ownership/funding models for vulnerable customers who are not able to afford a high capital flexibility asset such as a home battery or Electric Vehicle (EV).
- The wider cost reductions flexibility creates through facilitating the strategic timing of substation upgrades – these, in turn, allow networks to avoid inefficient capacity overbuild where demand growth is uncertain/it may not be needed in the future.

⁶ Please see more analysis within the Appendix for more information.

- The extent to which the duration of contract is a key driver of the cost of firm flexibility, unlocking private investment.

We would be keen to present our data supporting the use of this mechanism to Ofgem.

If this is of interest, please contact charlotte.goodman@eonenergy.com.

Responses to Questions:**Q49. Do you agree with our proposal to retain and adapt SLC50 Business Plan Commitment Reporting? Do you have suggestions for how the reporting should evolve?**

We are supportive of the proposal to retain and adapt SLC 50.

Q50. Do you agree that we should proceed with the development of a Consumer Value Framework for ED3 and if so, do you agree with the principles set out above as the basis for developing a CVF?

We are fully supportive of this proposal. E.ON agree that the CVF foundation provides a good starting point. Over time we would like to see it evolve from the CVF explaining the potential value, to demonstrating out-turn as a real value in future years and beyond ED3.

Q54. Do you agree that we should maintain the current NIA Eligibility Criteria? Why?

We are broadly supportive of the proposal that Ofgem maintain the current NIA Eligibility Criteria, provided that the way in which it is applied remains consistent with the commitment outlined within this document to better incentivise transformative innovation/possibly introduce mechanisms to better drive the deployment of innovation.

One area in which the NIA could be at odds with these two ambitions relates to the upfront “use it or lose it” nature of the mechanism which may disincentivise longer term investment.

Whilst we appreciate that the fund is designed to facilitate early and small-scale research, nonetheless, this feature could discourage DSOs from investing across price framework periods and/or to engage in any follow-on longer-term investment/collaborations.

Q55. Do you agree with our suggested approach for assessing and setting NIA? Why?

We are supportive of Ofgem’s proposals to be more prescriptive in terms of the information required from networks, and the format in which this information is presented.

We also endorse all measures which look to provide cost transparency, as set out in section 5.44.

Q56. Do you have examples of projects that weren’t able to deploy in RIIO-ED2 due to the lack of funding, or that you anticipate wouldn’t be able to deploy in ED3 without the extension of the Deployment Fund to cover DNOs in ED3?

Whilst not explicitly linked to a lack of innovation funding, we do have an example project which has not been able to be deployed in ED2 within the existing flexibility auction framework, and instead had to be bilaterally negotiated. Such a scheme would not be possible without a bespoke contractual arrangement under ED3.

As such, it would be worthwhile ensuring any innovation fund is in place to potentially support pilot schemes in ED3. This does not mean, however, that we are advocating firm flexibility be funded solely through a measure such as this (innovation fund).

We have provided details of this project within the a section, marked commercially confidential.

[REDACTED]

Q57. Do you perceive a lack of coordination and direction as an issue for the deployment of innovation in the ED sector, and do you think a similar intervention to the TID is needed to resolve this?

Yes - we perceive a lack of direction and centrally led co-ordination as issues for the deployment of innovation in the ED sector. This situation has been exacerbated under the move away from a “flex first” approach under ED3 which risks creating an investment hiatus in developing flexibility resources and capabilities between ED2 and ED3.

Whilst a distribution level Deployment Fund will not address this latter issue explicitly, E.ON support the principle of an incentive to ensure projects are not delayed un-necessarily. This does not mean, however, that we agree with the common practice of time-limiting the deployment of flexibility such that it does not transcend price control periods.

Indeed, we recommend Ofgem look to promote flexibility cost recovery as a projected expenditure item that spans multiple controls—as has been done for categories of REPEX in previous decisions.⁷ Allowing for long-term cost recovery would encourage DSOs to enter into longer contracts, thereby generating cost savings that flexibility service providers can pass on to DNOs, and therefore customers.

Q58. Do you agree that further incentivisation is needed within the price control for innovation that doesn't primarily benefit networks? Do you have evidence to support this?

We would support further incentivisation for innovation which does not primarily benefit networks, although clearly this would need to be accompanied by measures such as quantifiable metrics and agreed measures for success.

We also agree with the proposals that high quality submissions should be a prerequisite for any form of incentive.

In order to deliver the longer-term investment signals we are advocating (which span across price control periods), any further incentivisation would need to be put in place alongside a commitment from Ofgem that such incentives will endure for the lifespan of the project, where it is proven they are delivering cost effectively and against the measures for success.

Q59. Do you have any feedback on what kind of mechanism would best provide this incentive, while ensuring that networks are only rewarded for actual delivery of consumer or system benefit?

We do not have any feedback on the precise nature of the mechanism which would best provide this incentive but would like to express our support for Ofgem’s proposals to strengthen the Consumer Vulnerability Incentive (CVI), as well as to introduce a “qualitative metric to measure and incentivise DNOs to provide good customer service to those on the Priority Services Register (PSR). However, we do not believe that vulnerable customers are necessarily limited to those listed on the PSR⁸, and so

⁷ For example, in the context of the ongoing price control arrangements, in its RIIO-2 Framework Decision, Ofgem had explicitly stated: ‘Where the cost profile of work spans multiple price controls (such as for the gas mains replacement programme), we will consider taking a long-term view of costs in setting allowances.’ See: Ofgem (2018), RIIO-2 Framework, Decision, para 5.15; accessed on 24 November 2025 at: https://www.ofgem.gov.uk/sites/default/files/docs/2018/07/riio-2_july_decision_document_final_300718.pdf

⁸ As acknowledged by Ofgem under their October 2023 Energy Price Cap Operating Cost Review Benchmarking Working Paper

would ask that Ofgem ensure that DNOs are incentivised and funded to support the broader group of customers that require support.

As an over-arching principle, to ensure that networks are only rewarded for actual delivery of consumer and/or system benefit, being able to draw upon a common methodology for measuring this [consumer and/or system benefit] is of paramount importance, and should be introduced alongside any new incentive. Such a methodology could also be used to appraise the value of existing schemes (whilst not un-necessarily unwinding the original performance incentives within these).

We acknowledge that there is work underway as part of the Clean Flexibility Roadmap to devise a common means of evaluating flexibility. However, progress against this is protracted and would merit from being expedited.

Similarly, a universal method for measuring success should also be put in place.

These could include parameters such as:

- Measuring direct consumer benefit – e.g. tangible bill savings as a result of innovation
- Measuring indirect consumer benefit – for all network/system users
- Measuring local network/direct benefit
- Measuring wider network benefits – both direct and indirect
- Any other savings the scheme has achieved against the “do nothing” counterfactual

Q63. How should DSOs incorporate flexibility services and connection process improvements into their network planning approach to ensure timely, efficient, and predictable connections? Should this be incentivised, and if so, how?

We believe that DSOs should be allowed to incorporate the use of flexibility to speed up connections, where it can be evidenced that this provides a net benefit either to the system or to optimise the network build out plan. Indeed, as we see the significant expected uptake in LCTs across the next decade, and beyond, it is imperative DSOs are able to utilise all means to achieve rapid connections.

E.ON also believes that DSOs should, wherever possible, incorporate flexibility into their network planning – for example to optimise the strategic timing of network upgrades where this aligns with localised DSO needs and/or supports cost-effective delivery of the ED3 programme.

There is a particularly strong evidence case for the use of firm flexibility within the connections process since it brings with it the delivery/reliability assurances often absent from routinely tendered flexibility markets.

The ability to use and account for this resource [flexibility] in planning, connection, build and operation/maintenance decisions provides DNOs with additional assurances in the context of expected supply chain constraints, and is currently underemphasised in the SSMC use cases.

As such, if there is not a specific flexibility connections incentive put in place, we would strongly advocate the following: DNOs publishing granular headroom and connection data; Ofgem implementing a standardised timeline and methodology for connection offers; and DNOs publishing a clear justification of costs and dates associated with connections.

As per our proposal under Question 59, if there is a universal methodology in place for evaluating the system benefit of flexibility - including how this can support activities such as planning and connections - this will allow DSOs to consistently factor it into all of their network actions (from planning/connections to build/operate and maintain) thereby allowing for optimal network management to be achieved.

Q64. Do you agree that changes are required to the CEM tool to implement our proposed approach in ED3? Are any other changes needed?

E.ON believe that there needs to be greater alignment on the over-arching approach to flexibility under ED3 before we are able to meaningfully respond to changes on the CEM.

It is nonetheless worth noting that the status quo approach does not capture all the benefits of flexibility, and so would need to be redressed as part of any CEM tool reform.

Q65. How can we best ensure that flexible connections aren't deployed at the expense of network reinforcement?

Notwithstanding our comments against Question 64, to best ensure that flexible connections aren't deployed at the expense of network reinforcement, Ofgem need to ensure the CEM captures all the relevant costs and benefits of flexibility - including accelerating connections, and the strategic timing of network infrastructure.

To ensure that networks achieve the correct balance in relation to flexible connections/network reinforcement, Ofgem should also oversee a cost-benefit framework that is comprehensive, with DSOs' options not being constrained so long as they are inside the agreed regulatory parameters.

Q66. How can we best ensure that DER/CER are not prevented from accessing wider flexibility markets due to the use of ANM or lack of NESO-DSO coordination?

Avoiding the Prevention of Access due to ANM:

Individual householders are more likely to become aware of the use of ANMs, plus any subsequent lack of access to wider flexibility markets, as consumer led flexibility (CLF) becomes more and more prevalent.

In order to anticipate, and proactively manage this issue, E.ON believe Ofgem should implement an urgent review into the systems and processes used as part of ANM (according to each distinct distribution network, to account for regional and/or DNO specific variation), with a view to documenting existing risks and benefits, and how these will likely evolve.

This exercise could then underpin a fact driven review into the role of ANM within the future system such that it does not become a barrier to the delivery of Government's Clean Power 2030 target.

The ENA, has documented some of this landscape already in "Primacy Rules Framework Open Networks January 2025, Version 2.0", which has been reproduced as part of the Day 1 Rules literature issued by the Market Facilitator. Therefore, this research can form the foundations of an Ofgem led review.

Since ANMs are currently highly valued by DNOs as a means for them to manage the network, the ramifications of any changes on their operations also need to be taken into consideration and

therefore any future changes in approach will require close consultation with operational network personnel.

It should also be noted that any changes to the role of ANMs will likely require Code amendments. This administrative impact should not, however, be a reason not to implement changes to the use of ANM if these would be of wider consumer/system benefit.

Avoiding the Prevention of Access due to Lack of NESO-DSO Coordination:

In terms of a lack of NESO-DSO coordination preventing access to flexibility markets, we are not of the view that additional measures, above and beyond those already in flight, need to be put in place with the exception of the below paragraph relating to IT.

We have some concerns over the efficacy of some of the in-flight initiatives, particularly the Market Facilitator (MF) - owing to the omission of all flexibility markets within its scope, plus the absence of tangible performance metrics – which we have fed back directly to Ofgem. We also believe that all market participants, not just those closely following the MF's implementation, would benefit from clearer signalling of its exact Rules and intent.

An area which we believe would benefit from centrally driven co-ordination is in the oversight of system operator IT upgrades, including the level of interoperability between transmission-distribution systems.

Initiatives like the Single Markets Platform and Enduring Auction Capability (EAC) have been protracted, with these applications containing errors upon launch (we have fed this back directly to NESO as appropriate). This is not acceptable when, as Ofgem outline across this consultation, data and digitalisation are integral to delivering CP2030.

We note that Ofgem's recent Open Letter "Flexibility Digital Infrastructure: Strategic direction setting" considers the value central intervention could add in use cases beyond those already in flight, and outlines a high requirement for transmission-distribution process alignment. However, the document also states that any decision to introduce common IT (to achieve such alignment) is contingent on a "Market Facilitator T-D coordination model decision".

In light of this, in the immediate term, we would advocate Ofgem adopt a stronger governance stance in relation to the delivery of key IT initiatives across all System Operators, with a possible regulatory requirement put in place to ensure a minimum level of interoperability between these systems wherever possible.

Q67. Are further incentives required to incentivise and encourage the use of flexibility in line with our approach for ED3?

E.ON agree that Ofgem should consider whether further measures are required to incentivise and encourage the use of flexibility.

To reiterate our key reservations:

- It is likely anticipatory network investment will not be realised at the pace Ofgem envisage (a situation exacerbated by the skill shortages/supply chain pressures they acknowledge are likely

to materialise). It is E.ON's view that flexibility is a no regrets option in helping to manage the risk.

- We believe that the levels of flexibility procured by DNOs to date are not reflective of this resource's capability/potential. Rather, we believe they point to flexibility market failures including the length of price controls, and overall approach to the market limiting the flexibility offerings. Our DSO trial is a case in point where we have provided a commercial and innovative offering that delivers flexibility to DSOs via EON funded battery installations in customer premises to deliver firm flexibility for DSOs.
 - Placing further limitations on the remit of flexibility under ED3 would serve to further exacerbate these (market) deficiencies.
- We believe that the way in which Ofgem has reversed its incentivisation of flexibility being used to defer investment, and instead has moved towards emphasising specific alternative use cases⁹, will not lead to the efficient development of flexibility potential. Instead, we believe it will result in DNOs procuring less of this important resource with an outcome for the system and customers that is not optimised.

This is especially relevant when considering that:

 - there will be differences in interpretation as to what is meant by not deferring investment, not to mention the fact that no infrastructural solution is permanent.
 - there is not yet an agreed definition, nor cost benefit analysis (CBA) in place, for Ofgem's 'new' flexibility use cases, creating a high-risk landscape.
- In light of the above bullet, we do not believe it is appropriate to exclude use-cases for flexibility from the cited examples on the basis of historical volumes/flexibility products procured.
- Finally, such exclusions have created ambiguity, leading many within the energy industry (including DSOs) to look to minimise investment risk by limiting their future flexibility investments to those which most align with these stated examples.

We acknowledge that since the publication of the ED3 Framework Decision, Ofgem have emphasised that they believe flexibility does have an important role to play. Nonetheless all published material points to a narrowed remit for this resource – a situation which we believe will result in unintended consequences. For example, Ofgem have suggested flex will be useful in outage management; therefore DSOs will be less likely to invest in flex for other use cases. E.ON have already been informally advised by more than one DSO that, as a result of the current literature on ED3, they are more likely to only invest in flex in line with the use cases Ofgem have set out.

Furthermore, changes to the incentive structure which discourage DNOs from using flexibility as they have done under ED2 risks creating an investment hiatus between price control periods, with projects at risk of being prematurely curtailed as we reach the end of ED2.

It is also the case that neither the Framework Decision, nor the SSMC, provide clarity around the flexibility allowances or incentives which will be in place for ED3 other than to state that any incentives should not be a duplication of those in place for reliability, nor that there will be new planned incentives for timely connections.

⁹ E.g. network operations, accelerate connections, reduce renewables curtailment

In terms of the most effective incentives to encourage both the greatest, but also the optimal use of flexibility, in line with our comments within the wider response, we believe the following would support this ambition:

- Allowing DSOs to achieve sufficient cost certainty in RIIO-ED3 such that they can enter DSO flexibility contracts over multiple price control periods (e.g. up to 15 years) would naturally unlock market entry with the subsequent wider system and customer benefits.
- In line with Ofgem's consumer protection, economic growth and net zero duties, stronger, targeted regulatory incentives on DSOs to facilitate flexibility such as the consumer value propositions used under RIIO-ED2 also has the potential to drive customer benefits, including those that are focused on vulnerable customers.
 - Ofgem could seek to incentivise DSOs financially—e.g. with an ODI-F, or a reward under the BPI to develop flexibility use-cases that could deliver reductions in system costs, to the benefit of consumers, in the ED3 period and beyond.
- Similarly longer-term planning incentives, which provide network operators with the certainty that there will be consistency in the treatment of planning across price control periods, de-risks investment.
 - In terms of mechanisms to deliver this, Ofgem could consider replicating the treatment of DSO funded CAPEX under flexibility - i.e. that for investment to which the networks themselves commit, the same incentives are retained if the project goes into the next price control period.
 - If this is not feasible, Ofgem could further formalise their intended treatment of longer-term planning, providing assurances to DSOs - at the point in time at which they set out their plans - that the existing regulatory incentives will be maintained.
- Lastly, allowing DSOs as much discretion as possible in relation to their own-funded investments across price control periods increases the likelihood that projects will materialise. This discretion would clearly be contingent on DSOs being able to demonstrate that, where funds are used flexibly, they are still delivering the same level of consumer outcome, and at a lower cost.
- Finally, as we have outlined in the Appendix, a firm flexibility proposal – with guaranteed asset/resource availability provided by the Flexibility Service Providers (FSPs) combined with guaranteed utilisation by DNOs – significantly unlocks barriers to the take-up of flexibility in underserved use-cases/locations. It is our view that any overarching regulatory model should explicitly support such arrangements where it can be demonstrated that they provide wider system/consumer benefits, particularly where fuel poor customers are supported.

Q81. Do you agree that the proposed aims for the DSO incentive framework appropriately reflect the core functional areas for ED3 (flexibility services, network planning, voltage and loss management)?

E.ON agree that the proposed aims for the DSO incentive framework do appropriately reflect the core functional areas for ED3 (flexibility services, network planning, voltage and loss management).

As our firm flexibility trial illustrates, we strongly advocate incentives that support DSOs in delivering flexibility through routes which directly support customer bills and deliver other social benefits. These include alternative asset ownership models which provide bill support whilst simultaneously unlocking participation for vulnerable households in the energy transition.

Such a model acts as a form of bill support that is self-funding since it is realised through system savings that, in turn, reduce bills for the generality of customer. We are of the view that Ofgem's approach to ED3 should not foreclose the opportunity for consumer flexibility to lower network costs and increase bill support for households that need it most.

Whilst this flexibility model specifically may not be a 'core functional area', we strongly believe that the regulatory framework should aid bills support, particularly for the vulnerable, where this can be achieved alongside supporting core functions.

We note that Ofgem's proposals to strengthen the Consumer Vulnerability Index (CVI) could deliver some progress in relation to this aim and, as such, are supportive of this.

Q82. How should the incentive framework evolve to reflect the DSO's more proactive role in network planning, operational use of flexibility, flexibility market development, and whole-system coordination?

Firstly, it is essential that any changes to the incentive framework in relation to flexibility do not reinforce some of the contradictions within ED3 – i.e. that on one hand, there is a drive towards DSOs adopting flexibility in a strategic context only (to permanently defer network reinforcement), whereas, on the other hand, many of the flex use cases outlined within both the Framework Decision and the SSMC imply that it is a resource to be used only in the short to medium term – eg. for outage management.

As per our earlier comments, a key evolution required to the incentive framework to reflect the DSO's more proactive role in network planning would be to provide DSOs with the greatest level of confidence possible that they can make multi-time period commitments – across price control periods - for flexibility.

We also support the introduction of performance metrics to capture performance in flexibility market development, whole-system coordination, and digitalisation.

Q83. Are the current parameters (Stakeholder Satisfaction Survey and Performance Panel) an effective way of measuring DSO performance? How do you view the role of Regularly Reported Evidence (RRE) in complementing these assessments?

We do not believe that the current parameters are necessarily suitable for measuring DSO performance in relation to capturing performance under flexibility market development, with additional metrics in relation to whole-system coordination, and digitalisation also likely needed within ED3.

Whilst qualitative metrics provide highly valuable material, there also needs to be quantitative reporting alongside these.

We note, with a high degree of concern, that Ofgem are not proposing to introduce meaningful quantitative performance metrics against the Market Facilitator's objective to deliver improved

liquidity in system operator flexibility markets. However, this is highly feasible – volumes of flexibility procured, and at what unit rate, relative to the baseline at Day 1 (1st Jan 2026) would be straightforward to capture – as we have outlined in our response to Ofgem’s recent consultations on the Market Facilitator.

Our position is that, if this oversight is not addressed via Market Facilitator governance, it would be appropriate for such a metric to be put in place as part of the performance parameters under ED3.

Finally, a commonly agreed measure of direct consumer benefit of flexibility (through e.g. bill savings), plus consideration given to wider societal benefit (e.g. reduced system costs resulting in lower bills for all consumers), would also prove a highly valuable metric for flexibility delivery, although we do not believe this should be a performance parameter at this point in time