

2 December 2025

Ofgem - ED3 Sector Specific Methodology Consultation

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Summary

Ofgem has characterised the ED3 price control as a period of significantly higher investment in the physical grid infrastructure. We encourage Ofgem to approach data and innovation with the same zeal, and to enable ED3 to represent a step-change in the availability and quality of data, and in the facilitation of transformative innovation on the distribution grids and in local areas.

Energy Systems Catapult welcomes the opportunity to respond to Ofgem's consultation on the sector specific methodology for the ED3 price control.

The Catapult was set up to accelerate the transformation of the UK's energy system and ensure UK businesses and consumers capture the opportunities of clean growth. The Catapult is an independent, not-for-profit centre of excellence that bridges the gap between industry, Government, academia, and research. We take a whole systems view of the energy sector, including in policy design and implementation, helping us to identify and address innovation priorities and market barriers, to decarbonise the energy system at the lowest cost.

We make the following key points:

- Ofgem rightly makes the point that *"pitting network build against flexibility is a false dichotomy: unlocking the smart, flexible energy system that is required for the energy transition requires DNOs to do both."* Unfortunately, this statement appears on page 113 of the SSMC and does not reflect the themes that dominate the consultation. Ofgem should bring this principle to the forefront and anchor the whole ED3 methodology around it.
- The SSMC is focused on centralised planning and grid reinforcement. We need both for the transition to Net Zero - genuinely *strategic* planning is key to delivering the lowest cost system overall; and grid capacity will need to grow to accommodate new sources of electricity demand. But over-reliance on either is likely to lead to an over-engineered and overly expensive electricity system, which could act as a barrier to decarbonisation.
- So Ofgem must maintain in ED3 the conditions that enable distributed flexibility to scale up; innovators to partner with DNOs, as well as to make use of data on the local electricity system to develop new products and services that meet consumers' and the energy system's needs.

We provide a response to a selection of the consultation questions in the annex. We would be happy to further discuss any of our responses with you.

Sincerely,
Ben

Response to detailed consultation questions

Q1. What are your views on our regulatory guiding principles that will inform the development of accountable investment planning and delivery?

The principles appear broadly reasonable. However, we note that the ‘supply chain readiness’ principle refers only to physical infrastructure. We think this is missing out the role of digital partners / suppliers – such as flexibility platforms. The change in Ofgem’s tone regarding flexibility in ED3 compared to ED2 risks creating a “boom and bust” situation for the companies working in the flexibility space. The UK is a world leader in smart, digital electricity system applications and risks losing this competitive advantage if innovators are given the signal to focus their efforts elsewhere.

Q2. Are the proposed objectives for the long-term integrated network development plans appropriate?

At the Framework development phase, Ofgem’s approach to ED3 placed considerable reliance on the RESPs and this has been reflected in the timetable applied to developing the tRESPs. It now appears that Ofgem has determined that the tRESPs would not be sufficient to directly inform price control decisions, resulting in the new requirement for DNOs to develop their own long-term plans. This change is happening relatively late in the price control process.

These developments demonstrate the risk of overreliance on centralised planning. Ofgem should take this opportunity to evaluate the reasons it has ended up in this situation, and reevaluate what they assumed about the RESPs, NESO’s ability to develop them, and how they could be used in setting the price control. It is essential that these reflections take place now so that they could inform the work being done to develop the SSEP, CSNP and full RESPs, and how those are used in regulation and policy-making.

Q4. Do you agree with the proposed use of tRESP outputs in DNOs’ network impact assessments?

We see two risks with the proposed approach:

- First, there appears to be a presumption that the tRESP methodology will necessarily result in the best estimates. However, the tRESPs are being produced at a very compressed timetable – driven by Ofgem’s intention to base the ED3 decisions on those plans. As a result, methodological choices – such as not relying on Local Area Energy Plans, where those are available – appear to have been based on speed of delivery considerations rather than on best practice.
- Second, layering the integrated network plans on top of tRESP assumptions risks giving a false sense of confidence and precision. In reality these are likely to be quite different plans, based on different methodologies and assumptions (even if they share some inputs).

Additionally, Ofgem will need to understand the extent to which the integrate network plans might be sensitive to specific assumptions – e.g. data centre connections. Where large-scale investment is based on such assumptions, it would be appropriate to consider direct funding of the investment rather than socialising the costs across all of a DNO’s customers.

Q9. Should delivery accountability mechanisms prioritise certainty over flexibility when funding low-regret, proactive investments aligned with strategic value decarbonisation and growth goals?

What appears low-regrets today may prove not to be so in the near future. For example, earlier in the document Ofgem points to the iron mains replacement programme as a successful example of large-scale investment in the energy networks. However, the iron main replacement programme was created at a time when it was inconceivable that UK households would not rely on gas for heating. Nowadays it is accepted that we will need to end the use of gas in homes to achieve Net Zero emissions.¹ The increase in the Regulated Asset Base caused by the iron mains replacement programme is undoubtedly making the government's decision regarding the hydrogen for heating / the future of the gas distribution networks more difficult.

Q15. What are your views on the combination of mechanisms presented in the two conceptual models? Do they effectively illustrate how different regulatory tools could be packaged to support strategic delivery in ED3?

Q16. In the context of ED3, do you consider that we should put more emphasis on Plan and Adapt or Plan and Deliver — to be more appropriate for achieving the guiding principles set out in Paragraph 3.5? Please explain your reasoning.

Q17. Are there additional mechanisms or combinations of mechanisms that should be considered to better support strategic, accountable, and adaptable delivery in ED3? If so, how might they complement or improve upon the models presented?

Response to Q15-17: There is a tendency in such price control processes to spend considerable time and energy debating *how* Ofgem should apply its price controls. We think the balance needs to shift away from repeatedly redesigning the regulatory framework in response to shifting internal priorities, and towards strengthening the stable, evidence-based foundations needed for any approach to work effectively..

The data on DNOs' activities (and wider goings on in the sector), insight into DNOs' activities and decision-making, and the expertise to understand the impact of these are necessary under whichever regulatory approach Ofgem adopts. These core regulatory capabilities – high-quality data, transparent insight into DNO decision-making, and the internal expertise to interpret this evidence – are the “boring” but essential foundations of effective regulation, whether Ofgem chooses an *ex ante* or *ex post* approach.

We encourage Ofgem to work with the sector to urgently improve these foundations in the period before ED3 decisions, and to make as much of this information publicly accessible as possible to enable meaningful stakeholder scrutiny.

Q41. Do you have any views on our proposal for DNOs to play a bigger role in the delivery of energy efficiency and low carbon measures?

We support the broad aim of having the ED3 price control facilitate an acceleration in the delivery of energy efficiency and low carbon measures in local areas. The best way to do this is to:

¹ [Climate Change Committee \(2025\) Carbon Budget 7](#)

- Ensure that the price control support both an acceleration of investment in the grid and continued use of distributed flexibility.
- Improve the quality, quantity, and standardisation of the data about the electricity distribution networks that is made available. This will provide a better foundation for innovative business models that deliver energy efficiency and low carbon technologies. It will also inform better decision-making at a local level on how to deliver local decarbonisation ambitions.
- Where Local Area Energy Plans exist, make sure that these are accounted for in DNOs' integrated network plans.

We do not support changes that enable DNOs to deliver energy efficiency measures or low carbon technologies for households. Allowing DNOs to deliver such measures risks foreclosing the market to SMEs and other organisations that do not have the privilege of a Regulated Asset Base against which they could borrow cheaply.

Q51. Do you agree with our proposed approach on all five themes? Why?

We support the proposed approach. As per earlier responses, we think that improving data quality and interoperability, as well as other measures to support effective use of flexibility, should be as much of a focus for ED3 as the ramp-up in grid investment.

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?

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?

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?

Response to Q57-59: We agree that the innovation funding mechanisms can be better used to deliver whole system innovation – where the benefits may not primarily accrue to the DNOs. However, it is not clear that an incentive is likely to be effective in this case, nor how such an incentive should be set.

NESO's remit across all energy system vectors, as well as its role in developing the RESPs, suggests that it should be the organisation responsible for leading (or "commissioning") innovation projects that span multiple vectors. It is key that any such projects involve one or more DNOs to maximise impact and insight.

Q60. Do you agree with our proposed scope for the DSO's role in network planning for ED3, including leading long-term integrated development planning and enhancing forecasting? How should DSOs ensure that future iterations of these plans align with emerging strategic inputs such as the Regional Energy Strategic Plan (RESP) and Strategic Spatial Energy Plan (SSEP) when they become available?

It is essential that the roles of DSOs (and DNOs more broadly), NESO and other entities are clarified. The current approach gives the appearance of creating an enormously complicated

planning functionalities at different levels of the system without full clarity over their respective remits. At best, this would result in some duplication of planning efforts. At worst, this could lead to direct conflict and contradictions, undermining investment and decarbonisation efforts.

Q61. How should DSOs best coordinate with other parties (eg NESO, local authorities, iDNOs, gas networks) to deliver whole-system outcomes through network planning? Are there specific governance or data-sharing arrangements that should be strengthened?

In the Data Best Practice guidelines,² Ofgem has a strong base on which to build and to embed and expand the principle of 'presumed open' data.

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 agree that flexibility is integral to system planning, as it enables the management of grid reinforcement projects and connections at least disruption to grid operations.³ Moreover, flexibility offers optionality to DNOs/DSOs where there's uncertainty about future network requirements.

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

The totex framework is effective at enabling DNOs to internalise their choices between grid investment and flexibility. To incentivise and encourage effective use of flexibility requires keeping the totex framework coherent. There has been a trend in ED2 and in the SSMC proposals for ED3, to carve out more and more expenditure types and apply bespoke treatments to them. Such carve-outs move the decision-making from the DNOs to Ofgem and weaken the incentive to make efficient trade-offs between capital expenditure and flexibility procurement.

Ofgem should subject the proposal for any such further carve-outs to rigorous testing of the incentives they create across the price control settlement.

As well as ensuring the right incentives, it is vital that Ofgem fully facilitates the use of flexibility through appropriate regulatory change – enabling innovative approaches that reduce the need for traditional headroom. Alongside (or ahead of) the ED3 decisions, this should include supporting mechanisms such as dynamic pricing and the broader use of flexible connection agreements, which can unlock additional capacity and encourage more efficient network utilisation.

² [Energy Data Taskforce \(2019\), Final report](#)

³ [Energy Systems Catapult \(2024\), Enabling Distributed Flexibility for Net Zero](#)