



Consultation Response

National Energy Action (NEA) response to Ofgem's RII0 ED3 SSMC

About National Energy Action (NEA)

National Energy Action¹ works across England, Wales, and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.

Background to this response

National Energy Action partners with each of the four DNOs to deliver social action cost-effectively and support the alleviation of fuel poverty. Throughout RII0-ED2, National Energy Action has worked with Ofgem and the network companies to embed good practice regarding vulnerability into each business.

In addition to this advisory work, National Energy Action has successfully campaigned for a strengthened regulatory environment to help DNOs better help their customers, including:

- The introduction of a new principles-based licence condition mirroring the requirement for energy suppliers to 'treat customers fairly.'
- Expanding the incentive system to be more focused on vulnerability, with a greater reward available.
- Ensuring that DNOs' NIA funding must be partly targeted towards addressing vulnerability.

Furthermore, National Energy Action works with DNOs to deliver projects that are funded by innovation funding pots, including:

- SSEN's VFES project, which aims to better understand and forecast potential changes and impacts to vulnerability using innovative forecasting techniques, as current Distribution Future Energy Scenarios (DFES) do not effectively take consumer vulnerability into account.
- NGPD's Equinox project, which looks to develop novel commercial arrangements and supporting technologies that unlock flexibility from residential low-carbon heating, while meeting the needs of all consumers, including the fuel poor and vulnerable.

Summary of Our Response

Our response to this consultation is based around three key themes:

- To fund vulnerability work, a use it or lose it allowance is likely to lead to better outcomes than an incentive.
- An explicit role for DNOs to play regarding energy efficiency would be a positive step.
- Innovation should continue focus on vulnerability.

Each of these is summarised below, before an expansion of our ideas in the answers to the questions posed in the consultation.

To fund vulnerability work, a use it or lose it allowance is likely to lead to better outcomes than an incentive

Within RII0-2, Ofgem has set different regulatory frameworks for both GDNs and DNOs when it comes to addressing consumer vulnerability. GDNs have been given a use it or lose it (UiLi) allowance through the Vulnerability and Carbon Monoxide Allowance (VCMA), while DNOs have been given an ODI-F for their work on vulnerability. This provides a useful comparison as to which method is best suited to ensure that network companies take appropriate action to help vulnerable consumers in their area.

The VCMA originally totalled £60 million and was latterly significantly increased because of the repurposing of the funding that was originally made available for the Fuel Poor Network Extension Scheme (FPNES). It is complemented by what amounts to a reputational incentive, with several public facing requirements:

- To report annually on work done through the VCMA.
- For prospective VCMA projects to be submitted to Ofgem in a transparent manner that can be seen by stakeholders.
- To hold an annual VCMA showcase event where stakeholders can see what projects have been undertaken and pose questions to GDNs and their partners.

Additionally, Ofgem required that one quarter of the available funding be used collaboratively. This has resulted in two positive impacts:

1. That the GDNs have set up a forum between themselves and consumer groups to discuss the VCMA collaboration strategy and approve potential projects.
2. That GDNs tend not to compete on vulnerability but are incentivised to work together to solve issues. This is a crucial factor that avoids creating a postcode lottery.

The ODI-F available to DNOs works very differently. It provides +/- 0.5% of base revenue, alongside a vulnerability baseline to provide an incentive for networks to invest in addressing vulnerability. This means that DNOs could access significantly more additional revenue for vulnerability services compared to GDNs. While National Energy Action originally supported this approach in the RII0-ED2 SSMC, it has become clear to us that the risk that such an incentive introduces through a potential penalty, as well as the existence of a vulnerability baseline, has led to less ambitious vulnerability strategies from the DNOs when compared to the GDNs.

Additionally, such an incentive structure also implies competition between DNOs. While the incentive does not explicitly state that DNOs are ranked against each other to access the incentive, it could be perceived that Ofgem would not want to provide each DNO with the full incentive. This risks DNOs being more siloed in their approach to vulnerability. NEA has witnessed have seen a step change in how GDNs work together over the period, but this has not been reflected on the DNO side. Our experience is that DNOs are far more focussed on the individual outputs that Ofgem set within the price control, such as customer satisfaction and PSR sign ups, but that DNOs more rarely fund work that will secure wider positive outcomes, such as addressing fuel poverty and health inequalities.

Overall, National Energy Action believes that a using a ULi approach would have significant benefits for low income and vulnerable households, and National Energy Action encourages Ofgem to maintain this approach for GDNs and consider adopting it for DNOs in RIIO-ED3.

An explicit role for DNOs to play regarding energy efficiency would be a positive step

NEA supports the intent from Ofgem to consider how DNOs can contribute to making the housing stock across the UK more energy efficient. AT the very minimum, DNOs should have a role in signposting their customers towards government-backed energy efficiency schemes that are available, particularly where their customers are fuel poor.

However, we also believe that more can be done, and that DNOs could have a direct role in delivering energy efficiency to reduce or delay the need to reinforce in areas of network constraint. This would build on the existing licence obligation to “promote the uptake of measures to improve Energy Efficiency, where such services cost-effectively alleviate the need to upgrade or replace electricity capacity and support the efficient and secure operation of the Distribution System. This may include procuring Energy Efficiency Services, where it is economic and efficient to do so.”

National Energy Action has worked with several DNOs to trial innovative approaches which have had a positive social impact at the same time as proving alternatives to conventional network reinforcement (or deferring it). National Energy Action has been encouraged by many of the DNOs’ appetites to develop these new approaches to manage grid constraints in contrast to network reinforcement via innovation trials, such as The Solent Achieving Value from Efficiency (SAVE) Led by Scottish and Southern Energy Power Distribution (SSEPD); The Power Saver Challenge project with Electricity North; and time of use trials within Energywise, which involved low-income households in East London taking part in trialling two different time of use tariffs.

For these alternative energy efficiency projects to occur, first they must be located in similar locations to those places where the DNO/DSO is planning to invest in network reinforcement, alongside areas with high population density, high deprivation, and high penetration of electrically heated housing. This means the opportunity to invest in these projects will not be evident in every instance and this ‘convergence’ will not always occur in a planned reinforcements a DNO may be planning on its network.

The experience of ED2 shows that, without regulatory intervention, these sorts of projects will not happen as part of business as usual. This is despite the significant positive impact they can have on households receiving energy efficiency upgrades (warmer homes and better health), as well as the broader economic impact (increased spending in local economies, job creation, cleaner air, and reduced emissions).

Dependent on what is sent out in the Warm Homes Plan, there may be additional roles for DNOs to play in facilitating and financially supporting home retrofit, beyond when it would be sensible to do so to avoid network reinforcement. This should be explored in the upcoming DNO/energy efficiency consultation. Beyond direct network and bill savings, improved energy efficiency delivers significant broader societal benefits. Warmer homes lead to a reduction in cold-related illnesses, directly lowering costs and demand on the NHS and social care systems. Moreover, investing in domestic efficiency and low-carbon heat measures drives local economic growth and job creation throughout the DNO service area.

Additional to the direct facilitation of efficiency improvements, DNOs have a clear role to play in ensuring that low-income households have fair access to the benefits of clean heating technologies. To ensure these benefits are accessible to all, particularly the fuel poor, DNOs must be empowered to remove adoption barriers. DNOs should ensure that they allow low-income customers to upgrade their network connection at no upfront cost when moving to low-carbon electrical heating, such as heat pumps.

Innovation should continue focus on vulnerability

NEA fully supports maintaining and strengthening the innovation funding framework to ensure it drives a strong focus on vulnerable customers. This is best achieved by restricting the scope of the Network Innovation Allowance (NIA) to focus on transitioning towards net zero and supporting vulnerable energy consumers.

Crucially, NEA continues to support every NIA project including a mandatory assessment of its impact on vulnerable energy consumers.

This assessment must be robust, requiring both: Quantitative analysis, which includes looking at the financial costs and benefits across all income deciles and the impact on households with different heating types (e.g., heat pumps, direct electric, solid fuel); and Qualitative analysis, which must consider the impact on specific disadvantaged groups, such as the digitally excluded, rural households, and those with disabilities and medical conditions.

Finally, given the scale of funding, this same comprehensive assessment must also be explicitly included within the scope of the Strategic Innovation Fund (SIF) to guarantee an inclusive and equitable transition across the entire innovation portfolio.

Answers to the consultation questions:

Question 23. Notwithstanding the proposals we have set out under 'Redefining Connections Types', do you have alternative proposals for what DNOs need to do to speed up connection times for LCTs, and what incentives (other than those we have discussed in this chapter, obligations and/or funding may be required to support this?

NEA welcomes Ofgem's focus on improving incentives for smaller connections, particularly for customers installing low carbon technologies (LCTs) such as heat pumps, solar PV, and EV chargers. Timely and cost-effective connections are essential to achieving net zero and supporting vulnerable consumers. There are, however, several areas where improvements should be prioritised:

- **Addressing Looped Electricity Supplies**

- A major barrier to heat pump deployment in social housing and retrofit programmes is the prevalence of looped electricity supplies, which affect up to 40% of homes in some regions.
- Current processes for unlooping are slow, resource-intensive, and lack guaranteed timescales, creating significant delays and cost uncertainty for landlords and residents.
- ED3 should include a programmatic approach to unlooping within DNO investment plans, supported by clear service level agreements and guaranteed standards for multiple connection applications.

- **Standardisation and Equity**

- There is currently a "postcode lottery" in approval times and thresholds for automatic LCT connections across DNOs. For example, UK Power Networks auto-approves up to 5kW solar PV and 10kW heat pumps via its Smart Connect portal, while other DNOs have lower thresholds and slower processes.
- ED3 should require standardised auto-approval thresholds for LCTs across all DNOs and incentivise adoption of best practice digital tools to streamline applications.

- **Incentive Design**

- Incentives should reward DNOs for reducing delays and improving customer experience for smaller connections, particularly for vulnerable customers and social landlords undertaking area-based retrofit.
- ED3 should introduce a metric that measures average approval time for multiple LCT applications and links financial incentives to performance against guaranteed standards.

- **Innovation and Flexibility**

- Ofgem should encourage DNOs to deploy technical solutions (e.g., export-limiting inverters, demand management devices) that allow LCT installation prior to unlooping, reducing disruption and accelerating decarbonisation.

- Funding mechanisms such as the Network Innovation Allowance should prioritise projects that address barriers to smaller connections, including scalable solutions for looped supplies.

Question 37. What is your view on the PSR Reach metric and whether this should form part of the AVR as a reputational incentive? If we were to continue this metric as a financial incentive, do you think it should continue as a reward/penalty or penalty only and should we change the weighting?

The experience so far in ED2 shows that the PSR reach metric drives a significant amount of DNO work within the vulnerability ODI. This does not necessarily reflect the value of increased PSR reach compared to other activities that could be funded through the ODI. Therefore, it would seem reasonable to reduce the weighting on the PSR reach metric, if Ofgem decided to continue with the Vulnerability ODI.

Additionally, reach is not the only aspect of the PSR that needs to be maximised. Quality is also important. Ofgem should investigate whether augmenting the current metric with a quality metric (to ensure fewer false positives) is feasible within the price control.

Overall, NEA continues to believe (as explained fully in the summary, that a use it or lose it mechanism, similar to the one used for the VCMA in GD2, would be preferable to a continuation of the incentive mechanism used in ED2.

Question 38. What are your views on the Social Value metric and the CSS elements of the CVI incentive. Are there any areas you think we should amend or adapt for ED3?

Overall, NEA continues to believe (as explained fully in the summary, that a use it or lose it mechanism, similar to the one used for the VCMA in GD2, would be preferable to a continuation of the incentive mechanism used in ED2.

If Ofgem were to continue with the Vulnerability ODI, it would be preferable for the social value weighting to carry greater weight, and if possible, to be combined with/replaced with a social value framework. This is because the social value part of the framework is more outcomes focussed than the other two parts – which are very outputs focussed. The experience of VCMA in GD2 shows that when outcomes are prioritised (guided by SROI and stakeholder views), the benefit for customers is significant. When outputs are chased, there is a strong reliance on the outputs being the correct ones, which is: a) unlikely over the duration of a 5 year price control; and b) unlikely without a significant number of metrics to meet (for example the value of the PSR is not just dependent on reach, but depends on data quality, the relative proportions of who is signed up to different needs codes, and doubtless numerous other metrics).

Overall, NEA favours network companies to take a much more outcomes focussed approach to vulnerability work. Our experience over decades has taught us that this results in the best outcomes for vulnerable customers.

Question 41. 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?

NEA strongly supports DNOs taking a more formal and direct role in delivering energy efficiency and clean heat measures, justified by the significant network, fuel poverty and systemic value these interventions provide.

Trial projects confirm that domestic energy savings and demand reduction can be effectively used as Non-Network Solutions to manage grid constraints and defer or avoid conventional network reinforcement. By embedding community-based energy efficiency and flexibility, DNOs can achieve system efficiency in a more cost-effective manner, resulting in lower long-term system costs of decarbonisation than relying on expensive asset upgrades.

Energy efficiency improvements are a foundational way to tackle fuel poverty. DNO-led energy efficiency interventions, particularly the replacement of old, inefficient heating or appliances, provide a direct and permanent way to alleviate fuel poverty by reducing energy consumption and improving home warmth. This is an essential component of an equitable energy transition.

Beyond direct network and bill savings, improved energy efficiency delivers significant broader societal benefits. Warmer homes lead to a reduction in cold-related illnesses, directly lowering costs and demand on the NHS and social care systems. Moreover, investing in domestic efficiency and low-carbon heat measures drives local economic growth and job creation throughout the DNO service area.

Dependent on what is sent out in the Warm Homes Plan, there may be additional roles for DNOs to play in facilitating and financially supporting home retrofit, beyond when it would be sensible to do so to avoid network reinforcement. This should be explored in the upcoming DNO/energy efficiency consultation.

To ensure these benefits are accessible to all, particularly the fuel poor, DNOs must be empowered to remove adoption barriers. Therefore, a new mechanism is required to allow low-income customers to upgrade their network connection at no upfront cost when moving to low-carbon electrical heating, such as heat pumps.

Question 48. Do you have any comments on the proposed ISG guidance as set out in Appendix 4?

NEA views the Independent Stakeholder Groups (ISG) as a crucial mechanism for incorporating consumer views. The guidance set out in Appendix four seems to be fit for purpose.

Question 50. 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?

Yes, NEA agrees that Ofgem should proceed with a new Consumer Value Framework for ED2. The principles set out look to be sensible. However, the framework should also include an impact assessment to see how different vulnerable groups would be impacted, including:

Priority group	Rationale
Low-income and financially vulnerable	Low-income and financially vulnerable households are the least able to afford high prices and are more likely to ration their energy use.
Disabled/has a medical condition	Disabled households often need greater levels of warmth to manage their health condition, and spend more of their time at home, leading to higher energy need (and therefore costs). Many also have higher electricity demand because of being dependent on powered medical equipment at home.
Carers	Carers are often in financially demanding situations due to their reduced earning potential and diminished opportunities for higher-level learning and training.
Low energy efficiency homes	Low energy efficiency homes have much higher energy demands, leaving occupants more exposed to high energy prices. This often overlaps with households that also live on the lowest incomes.
Off-gas homes	Homes heated electrically by technologies other than heat pumps often have higher energy costs, as the unit price of electricity is so much higher than gas. Those that use neither gas nor electricity for heating are particularly exposed – their heating fuels are not regulated.
Households with prepayment meters	Prepayment customers do not have the greatest fuel poverty gap but lack access to credit to help them pay for energy bills and therefore face the severe consequence of self-disconnection when they cannot afford to top up. This is coupled with a much lower than average income and a higher propensity to have several of the other vulnerabilities outlined here.
Single-parent households	Single-parent households face significant additional costs by virtue of needing to spend on children, and lower-than-average household incomes because of the need to balance work and childcare carefully.

	While their fuel poverty gap is below average, they often face some of the worst consequences of fuel poverty.
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Question 54. Do you agree that we should maintain the current NIA Eligibility Criteria? Why?

NEA has focused on ensuring that innovation funding is inclusive and directly benefits vulnerable NEA fully supports maintaining and strengthening the innovation funding framework to ensure it drives a strong focus on vulnerable customers. This is achieved by restricting the scope of the Network Innovation Allowance (NIA) to focus on transitioning towards net zero and supporting vulnerable energy consumers.

Crucially, NEA continues to support every NIA project including a mandatory assessment of its impact on vulnerable energy consumers.

This assessment must be robust, requiring both: Quantitative analysis, which includes looking at the financial costs and benefits across all income deciles and the impact on households with different heating types (e.g., heat pumps, direct electric, solid fuel); and Qualitative analysis, which must consider the impact on specific disadvantaged groups, such as the digitally excluded, rural households, and those with disabilities and medical conditions.

Finally, given the scale of funding, this same comprehensive assessment must also be explicitly included within the scope of the Strategic Innovation Fund (SIF) to guarantee an inclusive and equitable transition across the entire innovation portfolio.

References and Notes

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.