



Response to the DNOs' future role in supporting the rollout of low carbon technologies

Summary

Collaboration across the whole energy sector is critical for a fair and efficient energy transition, and for retaining the trust of the consumers to whom we transport energy. We are supportive of whole systems led approaches to greater coordination across the energy sector. In this response we will explore:

- the proposed concepts of greater coordination – including the benefits of increased data sharing and visualisation, and the benefits of a cross-sectoral effort to lay the ground for enhanced collaboration
- key issues that a discussion on expanded roles needs to address – including the importance of a guiding policy decision, and a thorough understanding of the impacts on fairness and affordability.
- a pathway forward – which may include small scale pilots, providing these are well developed with full inclusion of all stakeholders.

We understand why DNOs may be proposing taking on additional roles and why Ofgem is assessing options - the grid must grow and there will be some electrification of heat. However, as this consultation and the many questions it raises show, this is a very complex area. We are supportive of small pilots developed through whole-systems collaboration, which includes the gas distribution networks (GDNs). Effective pilots could help inform future government decision making, enable more informed customer choices and bring to life some of the practical challenges that would need to be overcome to deliver a fair and efficient energy transition.

Enhanced Co-ordination

We strongly support cross-sector collaboration in planning and for coordination of works. Collaboration is a role for everyone. Stakeholder engagement and integrating plans can reduce public disruption and introduce cost savings. Indeed, we developed and proposed a decarbonisation collaboration incentive as part of the RIIO-GD3 process (not accepted by Ofgem). To our understanding the accountability for planning, and subsequently indirectly the location of works, sits with the National Energy System Operator (NESO). In the



Warm Homes Plan¹, DESNZ note the possible benefits of a future 'strategic, area-based approach to planning and coordination of home upgrades' but sees the primary leaders in place-based delivery as the Warm Homes Agency and devolved authorities.

We are supportive of DNOs being funded to share data and develop data visualisation capability. However, a whole-systems approach cannot be coordinated by one energy vector to ensure the best outcome for current and future consumers. For example:

- a multi-vector approach is necessary to understand how to affordably and efficiently manage both individual customer and also aggregate customer demand (particularly peak demand).
- other Parties e.g. GDNs are well-placed to support several key steps of LCT growth, in particular identifying and specifying relevant technologies to locations and consumer engagement. GDNs have extensive experience of in-home customer support, including increasingly ambitious and successful Customers in Vulnerable Situations services

We think rather than elevating or expanding coordination roles (and thereby potentially creating additional confusion) there should be a focus on clarity of outputs, funding, stakeholder responsibilities and associated accountability. As the consultation notes, there are many players operating in this space with emerging/potentially overlapping remits including the Warm Homes Agency. Clarity would allow greater transparency and public scrutiny, and should lead to better outcomes. We would welcome the chance to work with Ofgem and sector stakeholders to ensure how these ambitions, and the coordination and governance to achieve them, are developed.

Expanded Roles

To properly assess the merits of the suggested Expanded Roles for the DNOs (across the proposed archetypes), we believe it is essential to consider the following aspects:

- how consumer choice will be affected;
- how a whole-systems approach will drive value for current and future consumers;
- the practicalities in our current regulatory set-up; and,
- how this approach ensures affordability for consumers

Consumer Choice: Research by Savanta has shown that consumers want change to happen with them, not to them. At the core of this belief is a sense of democratic right, individual home ownership and the need for tailored solutions based on specific property characteristics and locations². UK housing stock is diverse and research persistently shows that vulnerable households need the greatest care to secure a just transition. For some households, green gas boilers, hybrid heating (heat pump and boiler) systems, or gas-powered district heating may be more feasible and affordable decarbonisation routes. Research by Stonehaven showed that 'hybrid heat pumps offer a pragmatic alternative, delivering the required heat output while avoiding disruptive upgrades and reducing upfront costs³. Hybrids have the potential to accelerate the pace of

¹ [Warm Homes Plan](#), DESNZ

² [Exploring the role of choice in the heating transition](#), Cadent/Savanta

³ [The Heat Decarbonisation Two-Step](#), Cadent/Stonehaven



decarbonisation, with reduced disruption to property and to public spaces, protected system resilience, and a high proportion of benefits accruing directly to householders. For these reasons, we believe that consumer choice would be significantly restricted under the Widening Participation and Focused Intervention archetypes.

Whole-systems approach: We understand that Ofgem already accepts the significant benefits or coordinated work for consumers through less disruption via their collaborative streetworks incentive. We support the intent of this incentive and would support delivering further consumer benefits in this manner. On the other hand, an approach led by one energy vector may lead to a loss of consumer value and greater disruption to households. For example, the earlier mentioned Stonehaven report also said the addition of system benefits with ‘roughly £210 of avoided network reinforcement for each hybrid installed’, corresponding to a reduction in consumer charges to 2050 of £9.5 billion. A bias towards one delivery approach, will not only restrict consumer choice but may also create unnecessary cost and disruption. For example, meeting individual requests one-at-a-time to disconnect houses from the gas network is less cost efficient than waiting to meet multiple disconnection requests in a single visit, and could be coordinated with an offer for unlooping. It is not clear how a whole-systems approach will be applied across the archetypes.

Practicalities in our current regulatory set-up: It is suggested that DNOs could finance, install, and own behind-the-meter assets. We see some key risks that will need to be addressed and indeed these are risks that Ofgem has considered in terms of considering the role of Gas Distribution networks undertaking work beyond the meter:

- blurred boundaries between regulated monopoly activity and competitive market functions; with a material risk of distorting competition if DNOs enter installer markets restricting or boosting select suppliers and installers (presumably after some verification). We are keen to understand what engagement Ofgem has had with suppliers and installers, and with the CMA to assess any competition concerns. It is not clear that the proposed suggestion of third-party installers is sufficient to address competition concerns.
- private technologies and household-level assets are potentially being shifted in the collective cost base of the RAV. This raises questions about affordability given the combined costs of LCTs, their installation and necessitated network-related capacity reinforcements. This also adds complications arising from the stranding cost of infrastructure which becomes redundant (e.g. a new owner declining to maintain LCTs), which would further impact the RAV.
- risk implications for DNOs themselves. We observe that all archetypes introduce new liabilities for the DNOs who would become legally and financially responsible for faults, damage, safety risks, safeguarding issues, and maintenance (e.g. electrical fires). These differ from the DNOs traditional responsibilities as regulated network operators; rather, the DNOs would become responsible or partly responsible for LCTs, their installation and any arising liability. In our view, these risks are inherent in the archetypes proposed because DNOs exercise some control over household selection, installer selection and/or equipment installation – we recommend Ofgem commission legal advice before the SSMD.

Affordability: We support Ofgem’s consideration of lower-income households, and their inclusion in a fair transition. It is right that these households are



front of mind in the planning and operation of the future energy system. As we understand it, any expanded role would involve costs and redistribute costs across all consumers - even to those who will not receive any benefit themselves. Charges for DNO activities are recovered through both the unit and standing charge, with the latter disproportionately impacting lower-income households, who are also those less likely to adopt these technologies. In addition, any consideration of coordination of service disconnections from the gas distribution networks would need to consider where the costs of such works should fall. This is a live issue in the policy considerations around the disconnection processes (should the departing customer pay for themselves or the burden be left with remaining customers). Before the SSMD and next consultation, we recommend that Ofgem conduct and publish an impact assessment for each permutation of the proposed expanded role, which includes a distribution analysis of costs and beneficiaries – this would mitigate the potential risk that wealth inequality could increase from poorly designed interventions.

Conclusion and suggested path forward

We are strong proponents of energy system coordination and a whole-systems approach. We are supportive of data sharing and visualisation by DNOs. However, we do not think one energy vector should lead on the stakeholder coordination role. Additionally, gas distribution networks are critical not optional stakeholders/delivery partners. We recognise this space is evolving with new entrants with as of yet undefined roles and responsibilities. We would welcome a cross sectoral effort to define outputs, funding, responsibilities and accountabilities across the sector. A view on enhanced coordination would follow this effort, not precede it.

Our view is that Expanded Roles for DNOs should wait for further government decision making, and clear evidence of positive impacts including affordability (especially for vulnerable households). The approach will have the added benefit of benefiting from emerging government decisions such as those emerging from the Midstream Gas System Review, the 7th Carbon Budget, and the hydrogen-for-heating decision.

We believe there may be some advantages to limited small scale pilots (based on a whole-systems approach), potentially through NIA funding. It is important these pilots are well developed and address the key issues set out in this response. We welcome the chance to work with stakeholders across the whole energy sector to develop the archetypes and small-scale pilots in more detail.

Please do not hesitate to contact us if you would like to discuss any of the above further.

Richard Court

Director for Regulatory Strategy