

Annex 1 – Response to consultation questions

Q1. Should DNOs play a role in co-ordinating and supporting a cost-effective energy transition through improved planning and supporting/directing targeted delivery? How can they help make the transition more efficient and affordable for everyone, and do they have a role in supporting lower income households?

We agree that DNOs should play a role in coordinating and supporting the rollout of low carbon technologies and energy efficiency (collectively referred to as LCTs in this response) to households. DNOs are uniquely positioned due to their central role in managing and planning the network, access to system data and relationships with Local Authorities and community energy groups. DNOs also have the insights into network capacity constraints and connection opportunities, all of which are needed to effectively coordinate LCT deployment.

We have been advocating for DNOs to have an enhanced facilitator role in this space since RIIO-ED2, when we put forward a Consumer Value Proposition (CVP) as part of our business plan proposing that we act as an energy efficiency accelerator by partnering to deliver energy efficiency at targeted points on our network and providing energy efficiency improvements to a targeted number of households. This proposal was not taken forward in RIIO-ED2, but we are pleased that Ofgem is looking at this area for ED3 and keen to work closely together with Ofgem and DESNZ to ensure that a suitable approach is developed and implemented.

However, Ofgem must be clear on the policy intent here: whether the objective is maximising overall LCT uptake, prioritising vulnerable customers, targeting network constraints, supporting the Government's Warm Homes Plan, or a combination of these. The solution may look quite different depending on the overall objective, so clarity on this point is essential.

For ED3, we have put forward a Business Plan Incentive Early Proposal setting out our plans to carry out pilots in the remainder of RIIO-ED2 on an Enhanced Facilitator role for DNOs in LCT. This will involve working with local authorities and installers as well as commercial and funding partners. Our full BPI Early Proposals submission can be found in Annex 3. Through the pilots we will explore partnerships with commercial delivery organisations to understand how the facilitator role could open new delivery channels, strengthen supply chains, improve customer journeys and increase installation volumes at scale. Our proposed pilots have a real added benefit as they can be stood up quickly in RIIO-ED2, meaning that learnings and outputs would be available in time for implementation in ED3. More details on our pilots can be found in Annex 4.

There is a clear role for DNOs in supporting vulnerable customers and lower-income households through the energy transition as we can use our existing knowledge and understanding of our customers combined with local authority knowledge. Supporting vulnerable customers will help enable their participation in system-wide flex markets, ensuring that no one is left behind in terms of benefitting from LCTs and bill impacts.

Our proposal fits well with Ofgem's Enhanced Coordination role as set out in the consultation, as our pilots will be looking at:

- How we can work collaboratively with local authorities and partners, including using digital tools and data sharing
- Customer experience and end to end journey mapping, including how we gain buy-in from our local communities

However, it should be noted that our pilots test aspects that go well beyond the Enhanced Coordination role and will also help to inform elements of the archetypes set out by Ofgem under the Expanded Delivery role including:

- A framework for identifying use cases, looking at types of technology mix, geographic focus and application to types of housing stock, including rented social housing.

- Partnerships with commercial delivery organisations to look at opening up new delivering channels, strengthening supply chains and increasing installation volumes at scale.
- Exploring potential funding routes for LCTs including the commercial arrangements required with installers and partners to enable delivery.
- Looking at potential alternative sources of funding for LCT

Annex 5 sets out the key elements of our proposal and where this aligns with Ofgem Enhanced Facilitator and Expanded Delivery models.

Q2. Do you agree with the overall rationale and scope of 'Enhanced Co-ordination'?

We agree with the overall rationale for the Enhanced Coordination role. The longer-term approach to business planning in ED3 creates an opportunity for greater coordination between DNOs and local stakeholders, ensuring coordinated plans that maximise system benefits. Without stronger coordination, there is a risk of misalignment between DNOs network investment plans and the network requirements of local authorities and wider local stakeholders, which could risk slowing LCT deployment.

In terms of the scope of the role, the consultation describes how the licence mechanisms could work but provides less detail on the overall model and approach and how it all fits together, including key interactions with the Government's Warm Homes Plan and other government activity in this space. We recommend that Ofgem sets out a high-level model for Enhanced Coordination, including objectives, roles and responsibilities and interactions with other relevant activities to ensure that there is clarity for all parties prior to considering more detailed implementation mechanisms.

We are well placed to support the Enhanced Coordination role, having already demonstrated leadership in this area through our engagement with Local Authorities, RIIO-ED2 innovation projects and the next step with our pilots in RIIO-ED2. As explained in our response to Question 1, our RIIO-ED2 pilots will directly test core elements of the Enhanced Coordinator role, particularly on working collaboratively with local stakeholders and communities, as well as enhancing the digital and data tools that are available. This will provide early, evidence-based insights to support an ED3 Enhanced Coordinator model, which we expect to involve DNOs bringing together many different parties around place-based LCT priorities.

In summary, we fully support the Enhanced Coordination role, but the model must be underpinned by a clear policy framework and there must be alignment with the Government's work in this area. Our pilots offer a practical route to shaping this model ahead of potential ED3 implementation. Clear roles and responsibilities for all parties involved will be critical to a successful model. Annex 6 provides our initial view of what this could look like.

Q3. What are your views on the effectiveness of the existing Collaboration Plan requirements? Do you think the enhanced Community Collaboration Plans we have described would be helpful to stakeholders and, if so, how best should they be monitored?

The existing Collaboration Plan requirements were introduced to require DNOs to demonstrate how they will collaborate with stakeholders, including the sharing of data and working in partnership with stakeholders to support the development of local and regional decarbonisation strategies. The Collaboration Plans provide a useful regular update for stakeholders, with the focus historically having been more on the data sharing aspect.

As mentioned in our responses to Questions 1 and 2, it is important to establish a clear policy aim before moving to detailed consideration of implementation. However, we have provided below our initial thoughts on the proposed changes to the Collaboration Plan.

Whilst we welcome Ofgem's intention to improve coordination, the proposed changes risk overly prescriptive requirements that would increase regulatory burden for DNOs without delivering clear value for stakeholders. Examples include:

- (1) The requirement to identify individual stakeholders as well as individual engagements could be a step back in terms of where DNOs are with regards to stakeholder engagement, which is now fully inbuilt as part of our decision-making processes.
- (2) We are unclear on the benefits of introducing Scheduling and Coordination Agreements with key stakeholders. These relationships already exist and are an important part of our planning processes and function well without formalisation. Introducing these agreements would place unnecessary burden on DNOs and stakeholders, without any clear added value.

Overall, whilst we support the intent behind strengthening the Collaboration Plans, any changes must remain strategic, proportionate and add clear value for consumers. We need to build on successes and understand how we can further support local engagement, but must also be aware that placing additional requirements on DNOs will not solve the challenges faced by local actors on resourcing and capability.

The role of the Regional Energy Strategic Plan (RESP) does not appear to be reflected in the consultation. The transitional RESP (tRESP) and RESP are being developed to provide strategic regional energy planning that is reflective of the regional context and aligned with national plans. These should provide a consistent, stakeholder-informed view of required network developments in each region. Without alignment across these activities there is a risk of duplication and confusion.

The ISG play a critical role in shaping our business plan, applying independent scrutiny and challenge to ensure our plans reflect the needs of our stakeholders. For us this role also extends to an ongoing role during the price control period, ensuring that we continue to be fully informed by customers and stakeholders in our decision-making and future plans. Our view is that extending this role to potentially monitoring our compliance with element of a licence obligation would not be appropriate and could blur the lines of Ofgem's and the ISG's remit. However, there may be value in the ISG providing an independent review of our Collaboration Plan to ensure that it reflects our stakeholder needs.

Ofgem should consider whether the expansion of licence obligations is the most appropriate tool to implement these changes. Collaboration and stakeholder engagement are already fundamental elements of our business-as-usual activities, with existing tools to hold DNOs to account for their engagement, such as the DSO incentive. The development of a best practise or guidance document may be a more suitable and workable means to ensure that the requirements are clear, without disproportionately increasing the regulatory burden for DNOs.

Q4. How useful is the data currently published by DNOs, and is it presented adequately?

We continue to expand the range of network and planning data we publish, based on ongoing stakeholder feedback to ensure it is relevant and useful. We also recognise that, for many users, the issue is not only what is published but how easy it is to find, understand and use; we therefore actively explore ways to make our data more accessible.

Stakeholders tell us that greater standardisation across DNOs would be helpful, particularly for stakeholder who work across different DNO licence areas. We would welcome Ofgem and industry working together to develop standard formats to ensure consistency across the DNOs in terms of the data that is made available.

Q5. What are your views on strengthening the System Visualisation Interface requirement, and would it be valuable for DNOs to collate and publish additional non-network datasets, if so, which datasets would be most beneficial?

We already provide our Local Energy Net Zero Accelerator (LENZA) tool to local authorities and other stakeholders. This provides a wide range of network and non-network datasets to enable LCT planning and LAEP development by local authorities. LENZA is underpinned by Advanced Infrastructure's LAEP+ system which is now used by the majority of DNOs in GB. It combines network data with socio-demographic, housing and environmental datasets to help identify priority areas for intervention, enabling local partners to plan LCTs with full visibility of network implications, ensuring projects are technically feasible and cost effective. LENZA has been widely adopted

across all local authorities within our licence area, with one calling it a “game changer” for shaping decarbonisation. There is stakeholder support for further development and enhancements of this tool, including to allow for better interaction and support for local plan development. This formed part of our funding request to Ofgem in January 2026 under our Digitalisation Re-opener submission.

We are always happy to consider additional datasets where there is value in this. However we consider that LENZA/LAEP+ could fulfil this need and note that many local authorities are already familiar with its usage.

We would note that there can be issues with sharing this type of data with commercial entities and this is something that would need to be considered, possibly with different access levels to ensure that appropriate data is presented to different user groups.

Finally, whilst we are voluntarily providing non-DNO data currently as part of our LENZA tool, we would have some concerns if this were to become an obligation as we are not the data owners so have limited control over the availability, accuracy and ability to use this.

Our data portal (data.ssen.co.uk) contains extensive network information in open and API accessible forms. This includes network modelling data and new visualisations such as the Centralised Network View – which brings together capacity headroom, embedded capacity and strategic development plans in a single interface. As an in-house developed tool, we are able to refine and enhance this to meet stakeholders’ needs.

Q6. What are your views on the Working with Local Authorities and others proposals we have set out above? What if any, would be the key elements of this? Are you aware of particular entities who would benefit from such advice?

We are in a strong place to deliver the proposals to provide technical support or advice, tools or software, and/or present network build options to Local Authorities:

- Our Local Authority engagement team includes power system engineers able to provide technical support and advice.
- We already provide strong and valued IT tools, for example through our LENZA platform (as detailed in our response to Question 5).
- Our Strategic Development Plans¹ (SDPs) provide a blueprint of long-term electricity system needs that allow us to work with other stakeholders to design and build the local markets and networks they need to decarbonise their power needs. This includes detail on proposed EHV network build options. For ED3, we are developing plans through our SDP+ Business Plan Incentive Early Proposal to extend this more greatly to LV networks. More detail on our SDP+ proposal can be found in Annex 3.

However, careful consideration must be given to any licence obligation here, for example consideration of the definition of ‘advice’ and how far this would extend. It should also be noted that there would clearly be costs associated with these additional tasks and we would need a clear route to funding for this.

Finally, whilst we note the potential for RESP to help strategically develop LCT roll out, any extension to RESP responsibilities should ensure it does not duplicate existing activities.

Q7. How could iDNOs support the proposals in this portion of the consultation? How could either private wire connected properties or license-exempt networks feature in these proposals?

We do not consider that this question can be answered in isolation from the wider challenges with the current iDNO framework. The existing iDNO regime is now significantly outdated and we have consistently called for a fundamental review of its structure, incentives and regulatory protections. Ofgem has itself identified that the regime requires review, but this has repeatedly been de-prioritised. This is particularly important when considering

¹ [Strategic Development Plan \(SDP\) - SSEN](#)

proposals that place new, costly, or resource-intensive obligations on DNOs. We have set out the key issues below.

1) iDNOs do not operate under the same universal service obligations as DNOs.

iDNOs have no obligation to provide universal service, respond to faults to the same standard, maintain long-run network resilience, or support system-wide decarbonisation activities in the same way that DNOs do. iDNOs are subject to less onerous regulation than DNOs but charge the same DUoS as the host DNO, for example in areas such as:

- supporting vulnerable customers,
- contributing to regional energy planning,
- providing detailed network data and reporting, or
- proactively supporting LCT readiness or whole-system coordination.

2) iDNOs are structurally incentivised to select low-cost networks in a way that drives up bills.

Unlike DNOs, which must serve all customers and geographies, iDNOs are structurally incentivised by the design of the regime to select only the low-cost areas to operate network. iDNOs therefore may focus on adopting networks where the annual running costs are lower than the average costs embedded in DNO DUoS charges.

3) Increasing obligations on DNOs widens the competitive imbalance.

Introducing new LCT-related duties (coordination, planning, data provision, support for LAs, or vulnerability-related activities) increases DNO cost and workload, but iDNOs face none of these obligations. This is true of any wider obligations which fall on DNOs but not iDNOs. As DNO costs rise to fulfil enhanced roles (and are reflected in increased DUoS charges), the available iDNO margin further increases. The introduction of new obligations without wider iDNO regime reform will only worsen the existing structural inequities in the regime.

4) This has serious implications for iDNOs supporting LCT rollout.

A successful rollout of LCTs will rely on whole-system thinking, alignment with LAEP/RESP processes, and consistent service across all customers, to ensure coordination with area-based delivery models, and alignment with wider system need. These factors mean that Ofgem must undertake a full review of the iDNO regime before determining the role iDNOs could play in LCT rollout.

Without addressing these issues, it is unlikely that iDNOs can play a consistent, equitable or system-optimised role in delivering the proposals set out in this consultation.

Q8. We are keen to understand how these proposed Enhanced Co-ordination activities could best integrate with NESO's RESP processes in the near and long term, and how these proposals could complement, or be in tension with, RESP development?

Ultimately, LCT coordination should be a driver of RESP forecasts, with a regular feedback loop. RESP generally sets out information on a GSP basis, which should continue, with the DNOs additional expertise downstream being key. If programmatic approaches to LCT uptake and the LV network clash with the GSP based forecasts of RESP, these should be resolved through the proposed RESP governance channels.

DSOs should therefore continue to undertake DFES, LENZA, SDP type work to understand where LCT uptake is likely to be constrained without intervention or could valuably be encouraged, and feed into RESP pathway development via proposed technical working groups, giving oversight to regional boards.

Q9. Do you think if DNOs adopted the type of Expanded Role described above this would add value and support the rollout of LCTs and EE? Could this model provide an effective and viable way to deliver network and system benefits? If so, could this be achieved while also prioritising support for low-income households?

We consider there to be benefit in exploring the Expanded Role further. As detailed in our cover letter and response to Question 1, our Enhanced Coordination BPI Early Proposal model aligns with some elements of an Expanded Role and our RIIO-ED2 pilots will allow the opportunity to test these. However, there is insufficient detail in the consultation to allow us to give a fully informed view at this stage, and significant further work and development is required in this space. We see no reason why an expanded role that delivers system and network benefits could not also prioritise supporting low-income households; indeed we consider this to be an important element of the final model.

For consideration of an Expanded Deliver role for DNOs in LCT rollout, the following points must be considered:

- Clear and defined roles and responsibilities for each party;
- DNOs must confirm ability to deliver the role whilst delivering against ambitious ED3 plans;
- ensuring an appropriate balance of risk;
- ensuring that any increase in risk is appropriately remunerated; and
- not duplicating or foreclosing services already provided by others.

Our more detailed comments on each of the archetypes under the Expanded Role are provided in response to Question 11(a).

Q10. What are your views on us considering these proposals using a network benefit and wider system benefits approach? Do you have relevant information on the likely network, system, consumer or efficiency benefits of such an approach?

We strongly support Ofgem's intention to assess proposals using a network benefit and wider system benefits framework. This approach aligns with the evidence from our innovation portfolio - particularly Equal LCT (see our response to Question 11(b)), which demonstrates that coordinated LCT rollout, when combined with EE and flexible operation, can deliver significant network, system, consumer and efficiency benefits. This approach allows the following:

- Ensuring least-cost investment decisions - by valuing avoided reinforcement and locally targeted flexibility, the framework supports interventions with the highest net societal value.
- Aligning the regulatory model with Net Zero requirements - electrification of heat will generate sharply higher winter peaks; demand-side measures must be recognised as core system infrastructure.
- Maximising consumer value - the approach captures bill savings, affordability improvements, and carbon reductions that consumers value but traditional network models overlook.
- Enabling place-based delivery - Equal LCT's modelling shows that system benefits vary significantly by location, supporting Ofgem's direction toward more locally tailored interventions.

Our Community Smart Access product², developed in coordination with LEMA (the Local Energy Market Alliance) combines the benefits of coordinated LCT operation, enabled by a DSO flexibility service, to accelerate the construction of new build housing where there is network congestion. For the new housing estate, the inclusion of LCT can both be attractive for residents and drive new revenues from flexibility. This same model may have the

² [New SSEN-led project offers options of faster connections for decarbonised new homes - SSEN](#)

potential of supporting LCT rollout in existing housing stock. We tested and developed the cost benefit analysis of this approach with the support of NERA.³

Q11.a) Do you have any views on the archetypes presented and their implications? Do you have any other approaches we should consider?

We consider that there is merit in **testing the benefits of DNOs carrying out an expanded role. We will be running pilots in RIIO-ED2 which, in addition to providing learnings relating to the Enhanced Coordination role, will also test elements of both the Laying the Groundwork and Widening Participation roles.**

The archetypes set out in the consultation are wide ranging and, particularly for the Focused Intervention Role, would represent a very substantial change to the roles and responsibilities of DNOs. There would be significant implications of this that would need to be fully worked through and understood in order to assess the impact.

Our views on each archetype are provided below. We would also reiterate the importance of understanding the overall policy objective here, as this will impact on which archetype or mixture of archetypes will have the desired effect. Finally, a robust impact analysis will be critical to fully understanding the risks, implications and benefits here.

Laying the Groundwork

We broadly support this archetype and agree that it is a build on the Enhanced Coordination role. This archetype fits well with our RIIO-ED2 pilots, as detailed further below. Specific points of note are detailed below.

Providing tailored advice to individual households directly on specific LCT adoption and energy efficiency measures would be a clear step beyond the current remit of DNOs, and it may be more suitable for this to be carried out via the relevant Local Authority who we would be working closely to share the relevant information with and who may already have a relationship with the customers.

The proposal for DNOs to bulk-procure LCTs on behalf of installers is not something we are aware of being raised in discussions to date. This would create additional risk for the DNO and could affect credit-ratios if working capital or inventory sits on the balance sheet; there would need to be clear boundaries around procurement responsibility and ownership of assets. Further work is required on this element of the proposal to understand if it is an appropriate redistribution of risk to DNOs and if it is compatible with financeability metrics.

We note that Ofgem considers this archetype may not significantly open up participation to a wider set of households. Presumably this is on the basis that DNOs would not be providing any funding for the LCTs. It is important that these archetypes are not considered in isolation, as it could be that funding is provided through other means such as government schemes, the National Wealth Fund or Great British Energy. Note that our RIIO-ED2 pilots include testing some of these alternative funding options.

We also note Ofgem's point that this archetype may not achieve significant network or system benefits. We are unclear on the basis for this and would note that DNOs not owning or operating the assets does not necessarily mean there will be no system or network benefits. Further comments on this point are provided in our response to Question 11(e).

These points demonstrate the need for a robust impact analysis including consumer bill impact, delivery / operational risk and financeability.

Widening Participation

³ [cost-benefit-analysis-framework-to-appraise-sens-alternative-flexibility-options-to-accelerate-network-connection.pdf](#)

We support elements of this more ambitious model in which DNOs lead in partnership with others, an area-based upgrade scheme open to all consumers. **Elements of this archetype will be tested in our RIIO-ED2 pilots**, as detailed further in the Annex 4. Specific points of note on this archetype are provided below.

We support an area-based, collaborative approach. The collaborative element is important, as decisions on the areas to target will be informed by several different parties, we do not consider it appropriate for DNOs to be directive here. Our RIIO-ED2 pilots will help to demonstrate the tangible benefits of an area-based, collaborative approach and will provide important learnings if this archetype is to be progressed.

We also agree that supporting vulnerable customers must form a key part of any model that is progressed. This is an area we have focussed on in previous innovation projects. The most relevant of which are:

- Vulnerability Future Energy Scenarios (VFES), which adds a community and societal layer into DFES calculations and supports network investment decisions in less resilient and less well-off areas.
- Vulnerability Identification via Informative Data (VIVID), this project allows data to be shared compliantly across sectors to find and support households in vulnerable situations.
- Vulnerability Evaluation for Resilience Investment and Flexibility (VERIFY). VERIFY brings VFES and VIVID together with data from Local Authorities and the third sector to improve collaboration, network investment planning, find LCT and flexibility opportunities, provide better services and help households in power cuts and other emergency situations. VERIFY is still a SIF Beta project, but should be ready for operational use during ED3.

We have carried out work with Regen to develop a modelling approach to develop scenarios that support a more strategic approach to investment in targets areas of our network to support a just and fair transition⁴. This work highlighted the risk of planning the network in a way that focuses on areas with higher rates of LCT adoption, which creates a risk of building injustice into network design. We are now considering socio-demographics in our SDPs which allows us to prioritise more vulnerable communities.

We have some concerns on the proposals for DNOs to be responsible for installation. Further detail is provided in response to Question 11(e).

We also have significant concerns on the proposal for DNOs to contribute an element of funding here. There is no articulation of what DNO funding could look like or how this would work in practise, and we would highlight that this would have an impact on our risk profile and may raise significant concerns with our investors. There is potential that where LCTs can be installed to provide services to the network, the network can value this service and provide a payment to consumers. This was illustrated by the proposal that the installation of smaller heat pumps could reduce peak demand on the network and be valued as a mechanism to defer network reinforcement. Please see our response to Question 11(d) for our views on the proposed funding arrangements across the different archetypes.

Focused Intervention

We do not currently support this more extreme archetype and consider there to be significant further work on fundamental aspects of this for it to be able to be fully considered. Our specific concerns are detailed below.

- We do not agree that DNOs 'exercising strong control' in this area will drive the best solutions for customers. We support a collaborative approach, where DNOs work closely with other local actors to ensure the best overall solution.
- Similarly, we do not agree with Ofgem's comment that 'greater DNO control results in greater network benefit prioritisation'. Critical to the success of any of these models will be a clear articulation of the policy objective; elements to prioritise can then be developed accordingly for any model.

⁴ [Just transition, Vulnerability and Future Energy Scenarios](#)

- This would be a fundamental change in role for DNOs and there is a real risk of distraction at a time when DNOs must play a critical role in developing the network to meet rapidly increasing network demand.
- We have significant concerns with the proposal for DNOs to fund all costs and add these to the RAV to be recovered from consumers over time. This would significantly impact our risk profile, introducing major financial exposure as well as impacting on long-term bills. This is also likely to raise material concerns with investors, with the increase in risk exposure triggering higher cost of equity and potentially cost of debt. See our response to Question 11(d) for further detail on our views on the proposed funding arrangements.
- No consideration is given to the impact on affordability; the addition of these costs to the RAV could have significant impacts on consumer bills in the long-term.
- This archetype would likely require fundamental legislative and licence changes to implement; the consultation does not give any consideration to this.
- This archetype would potentially have competition implications, noting that there are other non-regulated entities that may be better placed to install LCTs and there is a risk of prohibiting competition in delivery of LCTs across GB.

Q11. b) Do you have any evidence on key components notably: On the technologies and measures that should be supported: Do you have evidence on the relative costs and benefits of different technologies? How could heat pumps and other low-carbon heating technologies be included whilst still offering wider system benefits?

Evidence from the Alpha Phase of our SIF project, Equal LCT, has provided the following insights:

- The most **cost-effective approach to supporting low-carbon heating is to treat heat pumps as part of a coordinated package**: energy efficiency (fabric) plus smart controls, targeted to constrained network locations. Equal LCT quantified that improving homes from EPC E to EPC C can reduce winter peak demand by ~2.25kW per home, creating enduring headroom and contributing to an estimated ~£35m direct benefit in avoided/deferred reinforcement within SSEN's licence area (using avoided flexibility procurement costs as a proxy).
- **Installing smaller heat pumps can deliver wider system benefits when installed with smart controls that enable scheduling and flexibility**, shifting consumption away from peak periods without reducing comfort. Equal LCT's approach explicitly leveraged the ability of smaller heat pumps to be scheduled to lower-demand periods and combines this with energy efficiency measures to reduce peak demand.
- **Relative costs and benefits**: Equal LCT showed that energy efficiency provides multi-benefit value (network, consumer, carbon), including ~1,400 kWh/year reduction in heating electricity use and ~£353/year bill savings per home (E→C) compared to a heat pump heated house without enhanced energy efficiency. Meanwhile, smart controls and flexibility participation can further reduce the network capacity required for heat pump connections. In order to encourage connections of these smaller heat pumps the DNO can offer flexibility service payments of ~£450-£880 in constrained areas to enable the deferment of reinforcement.

These findings are consistent with our engagement through LEMA and benefits case design with NERA (see further detail in our response to Question 10).

We therefore support an ED3 approach that enables DNOs to coordinate and target LCT support where it delivers measurable whole-system value.

Q11.c) On the identification of suitable properties and consumer engagement: Would DNOs be well placed to proactively identify suitable properties and/or engage with consumers, or are there other actors better placed to perform these functions?

DNOs are well placed to support the identification of suitable properties and engage with consumers given our defined scope in regional areas. We recognise the need to work with other stakeholders in these activities and in

particular local authorities. Our work supporting local authorities develop decarbonisation plans puts us in a strong position including the use of digital tools such as LENZA now used by all authorities in our licence areas.

Q11. d) On the potential funding approaches and implications: what are your views on the feasibility, or risks from these approaches; do you have evidence from other sources that is relevant to these considerations?

Across all archetypes, the funding model must preserve regulatory clarity, protect the integrity of the RAV, and ensure the sector remains both investable and financeable. Any expansion of the DNO role must therefore be supported by clear and predictable risk allocation and compensation mechanisms, aligned with how investors and creditors assess stability within the Distribution Networks sector. While wider societal benefits may arise, funding approaches must avoid socialising individual customer benefits unless there is a demonstrable system-wide case.

It is also important to recognise that the extent of investability and financeability impacts will depend on the scale of investment required under each model. These investments must be assessed alongside the wider ED3 investment package and extended into long-term financeability assessments beyond ED3 to avoid creating financial pressures that could compromise essential network resilience and operation delivery. The scheme must also avoid introducing unfavourable penalties or unnecessarily restrictive PCDs within ED3 that could drive unintended prioritisation of delivery or outcomes, impairing DNO performance.

Ofgem should consider the risk that adding assets with materially different characteristics to the RAV under the proposed models could distort or “contaminate” the core RAV. Where additions differ significantly in their profile, there needs to be clarity on whether these would instead be treated as a ring-fenced RAV, with its own depreciation profile, capitalisation rates and allowed returns that appropriately reflect the specific asset characteristics and associated risk exposure.

Ofgem should provide clarity on cost recovery mechanisms and the basis for DNO compensation for their expanded role under each model. Ofgem should also consider existing tariff-setting timelines, where tariffs are set 15 months in advance, already creating material volatility in cost recovery. Any additional responsibilities linked to LCT rollout must not intensify this volatility or the timing mismatch.

A core strength of the UK regulatory model is the regulatory advantage it provides. S&P highlights that utilities operating in a “regulatory climate that lacks transparency, predictability and consistency” face weak regulatory advantage, especially where “capital commitments are required with no solid legal basis for full cost recovery” a scenario that actively harms credit quality⁵. As DNO responsibilities expand into areas with greater social-policy characteristics, it is therefore essential that Ofgem preserves the strong regulatory foundations that protect financial stability and investor confidence, avoiding any shift towards the weak-framework characteristics S&P warns against.

Our assessment of the feasibility, key concerns on funding under each archetype is provided below.

Laying the Groundwork

Funding under this archetype must establish a clear boundary between network-side enabling activities including flexibility services, which may be eligible to enter the RAV and customer-side measures, which should remain the responsibility of households or third-party partners.

A key concern is the additional exposure created by bulk procurement or similar activities, which introduces working capital and logistics risks that fall outside the established DNO operating model. From an investor and

⁵ S&P Global (2024) “Sector-Specific Corporate Methodology, pp. 147-148, Available at: <https://www.spglobal.com/ratings/en/regulatory/delegate/getPDF?articleId=3499862&type=COMMENTS&subType=CRITERIA&defaultFormat=PDF>

creditor perspective, this represents a shift away from the traditional regulatory framework, reducing predictability and potentially weakening the sector's attractiveness.

Potential investments in unlooping may also be material, increasing the overall ED3 investment package and affecting sector financeability and investability. A thorough assessment of the scale of investment is therefore required to determine an appropriate compensation mechanism.

To maintain investor and creditor confidence, we would require:

- Clear limits on procurement responsibilities, ensuring no additional exposure from holding inventory or incurring balance sheet risk without explicit regulatory protections.
- A robust definition of the network boundary, ensuring only network justified infrastructure enters the RAV.

Widening Participation

This archetype introduces mixed funding structures and further blurs the boundary between regulated and customer-side activity. This ambiguity increases investor and creditor uncertainty and stretches the established regulatory model, with potential implications for credit metrics and regulatory gearing.

To remain financeable and investible, we would require:

- Firm rules on RAV eligibility, potentially including a separate or ring-fenced RAV for non-traditional activities.
- Assessment of cash flow sufficiency under mixed funding approaches.
- Clear operational and ownership boundaries to avoid unintended balance sheet exposure, along with clarity on statutory accounting treatment and audit considerations.
- Early and ongoing engagement with investors and lenders to understand how mixed funding influences their assessment of sector's investability and financeability.
- A comprehensive evaluation of the increased risk profile, which may indicate the need for higher baseline returns to maintain sector attractiveness.

Focused Intervention

We cannot currently support this archetype nor the funding approach without significant further analysis on the financial impacts to DNOs. Fully RAV funded customer side installation would represent a major departure from the current regulatory model and introduce significant financial, operational and political risks. From an investor and creditor perspective, expanding the DNO role to this extent would likely prompt a reassessment of the sector's overall attractiveness, given the loss of predictability and stability that underpin current investment decisions.

There are also substantial supply chain challenges. We would expect a mismatch between supply and demand, as DNOs would need to scale labour and supply chain capabilities to deliver activities that sit outside their core business model. This raises notable feasibility concerns. In addition, the model would socialise individual customer benefits over a long period, undermining affordability and the core principles of the current regulatory framework.

Summary

While better coordination can support LCT rollout, any expansion of the DNO role must ensure that:

- Risk remains proportionate, clearly allocated, and appropriately compensated.
- Cash flow risks are managed and sector financeability is maintained.
- Investor and creditor confidence is protected.
- The regulatory model and RAV remain stable and credible.

- Customer-side benefits are not socialised without clear system-wide justification.
- DNOs' ability to deliver ED3 commitments is not compromised.

Maintaining this balance is essential to ensuring the sector can continue to finance and deliver the investment required for the energy transition.

Q11. e) On responsibility for installations: what are the risks and opportunities if DNO's were responsible for installations? What are the options for partnerships and how could different responsibilities offer better outcomes?

We agree that DNOs have a critical coordinating role, but we would be cautious of becoming responsible for the direct installation of LCTs. Evidence from Nesta's study on the role of DNOs in heat decarbonisation⁶ shows that the transition to low-carbon heat requires whole-system coordination, but that installation delivery is best left to competitive supply chains, local authorities, installers and market participants.

Risks if DNOs were responsible for installations:

- **Distortion of competitive markets & supply chains** - Taking on installation responsibility could crowd out skilled installers, distort consumer markets and reduce innovation. Independent analysis highlights that the rollout of low-carbon heat depends on cross-industry participation, and not a single delivery agent.
- **Conflicts of interest with core DNO responsibilities** - DNOs are regulated monopolies. Direct delivery of consumer installations risks compromising neutrality, particularly where decisions on LCT siting influence future network investment. DNOs must remain impartial facilitators of whole-system outcomes.
- **Skills, resourcing and operational burden** - Widespread domestic installations require extensive logistics and large-scale customer handling, activities outside the DNO licence scope. This could divert resources from our primary role: building, operating and maintaining safe, reliable networks at a time when delivering against our core purpose is critical in ED3.
- **Undermining the value of coordinated local planning** - Studies emphasise the need for strategic coordination across local authorities, energy retailers, installers and heat providers to accelerate the transition and reduce household barriers. Making DNOs installers would not resolve these barriers and could reduce joined-up planning.

Opportunities if DNOs focus on coordination:

- **Better identification of where installations create the most system value** - SSEN projects like Equal LCT show how data-driven geospatial tools (e.g. LENZA) can identify areas where coordinated LCT deployment could reduce winter peaks and temporarily defer reinforcement—unlocking network, consumer and carbon benefits. This coordinating role enables the market to install technologies where they create the highest system value, without DNOs becoming installers. DNOs are also able to triangulate network data with data on consumer vulnerability and fuel poverty, helping maximise network and community opportunities.
- **Improved whole-system planning and decision-making** - Nesta's analysis finds that DNO involvement in planning and coordination can reduce costs, overcome decarbonisation barriers and support more efficient heat transitions. In this model, DNOs provide data, mapping, hosting capacity signals, and targeted incentives, allowing installers and local authorities to deploy solutions effectively
- **Clearer, targeted signals to the market** - By providing location-specific information on constraints, reinforcement needs and flexibility value, DNOs can help installers, energy service providers and local authorities align deployment with system needs—supporting affordability and avoiding costly reinforcement.

⁶ [The role of distribution network operators \(DNOs\) in heat decarbonisation | Nesta](#)

- **Consistent approach over a wide regional coverage** – a DNO’s geographic coverage means it is well placed to act as a convenor providing a consistent approach over multiple local authority areas. Further through working together through the ENA, DNOs can readily achieve a common national approach and communications.

Q11. f) On ownership and control of assets: how can necessary level of network or system benefits be achieved without DNO control and ownership? Does this pose other risks and challenges, and how might these be overcome?

Substantial network and wider system benefits do not require DNO ownership or control of customer-side assets. Evidence from national research on heat decarbonisation⁷ and from SSEN’s own innovation projects shows that coordinated planning, data visibility, and targeted incentives can unlock system value while maintaining competitive delivery and consumer choice.

Research on the role of DNOs in heat decarbonisation highlights that DNOs can reduce costs and improve planning outcomes by providing visibility of network constraints, shaping local energy planning, and supporting coordinated deployment—without owning assets themselves. SSEN’s Equal LCT project demonstrates this in practice. By using LENZA and customer segmentation, the project identifies where coordinated deployment of heat pumps and energy efficiency could reduce peak demand and defer reinforcement when delivered by partners working together, as further detailed in response to Question 11(b).

Market-led deployment still enables flexibility and peak reduction - Equal LCT shows that smart-controlled heat pumps can be scheduled to operate in lower-demand periods, reducing system stress and enabling flexibility services without requiring DNO control of equipment. This confirms that operational flexibility can be delivered through standards, commercial incentives and interoperability, not ownership. This is consistent with the conclusion of our engagement with LEMA and the services underpinning Community Smart Access (see our response to Question 10).

There are some challenges with a non-DNO ownership model. There is a risk that market participants could make decisions that optimise customer preferences over system efficiency, risking clustering of LCTs in constrained areas. This can be addressed through the use of locational signals, geospatial guidance, constraint maps, as well as DNO-provided capacity forecasts and heat-pump suitability maps (as trialled via LENZA).

There is also a risk of coordination gaps across local actors, which could be mitigated through DNO participation in LAEP, formal coordination roles for DNOs (data, planning, priority area identification), multi-sector governance frameworks to align installers, local authorities and suppliers and a potential role for Regional Energy Strategic Plans. These would be important components of the Enhanced Coordination role.

Q12. Do you have views on whether pilots of these approaches would be valuable? And, if so, whether the pilots should potentially include a range of options across archetypes, or whether the scope should be narrowed in advance? What should be the main focus of any pilots?

We recently submitted a BPI Early Proposal for ED3 to Ofgem, setting out our plans to accelerate LCT deployment by adopting a wider role and testing this through pilots in RIIO-ED2. This proposal builds on three of our innovation projects: LENZA, Connections Readiness Indicator and Equal LCT. We note that in its feedback on our Early Proposal, Ofgem cited that it did not go far enough compared to other DNO proposals. However, our view is that it goes well beyond the scope of enhanced coordination as described in Ofgem’s consultation, to incorporate elements of two expanded role archetypes: “Laying the Groundwork” and “Widening Participation”, particularly on areas such as identifying use cases, partnering with commercial delivery organisations and exploring potential alternative funding

⁷ [The role of distribution network operators \(DNOs\) in heat decarbonisation | Nesta](#)

routes. We are already working to quickly mobilise these in RIIO-ED2, enabling learning for ED3. Further information on our pilots can be found in Annexes 4 and 5.

Further clarity is needed on the scope of any projects agreed through the BPI Early Proposals process to ensure that any pilots provide sufficient scope of optioneering. We are intending to take forwards our RIIO-ED2 pilots and would be keen to continue to share our thinking with Ofgem and other DNOs as these develop.

Pilots should include a range of options across archetypes at this stage and it is important that these are undertaken in coordination with upgrades to local LV networks. This enables communities to gain the benefits of LCTs quickly after their local networks have been upgraded.

Q13. How could iDNOs support the proposals in this portion of the consultation?

See our response to Question 7.