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Dear Jack,

SSEN Distribution response to Ofgem's ED3 consultation on DNOs' future role in supporting the rollout of low carbon technologies

Introduction

1.0. SSEN Distribution welcomes the opportunity to respond to Ofgem's consultation on DNOs' future role in supporting the rollout of low carbon technologies and/ or energy efficiency (referred to here as LCTs for ease). This letter summarises the key points of our response. We also include the following annexes:

- Annex 1 – Response to consultation questions
- Annex 2 – Response to proposed impact analysis
- Annex 3 – ED3 BPI Early Proposal
- Annex 4 – RIIO-ED2 Pilots
- Annex 5 – Mapping our BPI Early Proposal to Ofgem's archetypes
- Annex 6 – DNO / Local Authority Collaborative Model

1.1. We see a **clear role for DNOs in the rollout of LCTs** and fully support the ongoing work in this area to establish what this role should be. DNOs are uniquely positioned through our central role in planning and operating the network, access to system data and relationships with local authorities and community energy groups. We also have insights into network capacity constraints and connection opportunities, all of which are needed to effectively coordinate LCT development.

1.2. This is an **area of leadership for SSEN Distribution**. Since RIIO-ED2, we have advocated for DNOs to play an enhanced facilitator role in this space, including through our Consumer Value Proposition (CVP), which proposed 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. Whilst this proposal was not taken forward in RIIO-ED2, we welcome Ofgem's focus on this area for ED3 and are keen to continue to work closely together with Ofgem and DESNZ to ensure that a suitable approach is developed and implemented.

1.3. We have **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.

1.4. 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 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 3, 4 and 5. We would welcome further discussions on our early proposal to make sure Ofgem understands our proposals and understands how it might compare to those of other DNOs.

- 1.5. Critical to developing the right model is for Ofgem to **clearly articulate the primary policy objective and the specific problem this work is seeking to solve**. We recommend that Ofgem confirms whether this is primarily targeting (i) maximising overall LCT uptake, (ii) prioritising vulnerable customers and ensuring they are not left behind in the energy transition, (iii) maximising network benefits, or (iv) something else. We appreciate there are multiple different aspects to this, but the solutions and associated mix of technologies are likely to look quite different depending on the overall policy objective, so clarity on this point is essential.
- 1.6. This is a highly active policy area and alignment across related programmes of work is key, including the Warm Homes Plan and other government initiatives such as smart meter rollout, ensuring any lessons are learnt. We also emphasise the importance of a cohesive approach across the wider ED3 package. For example, we note interactions with discussions on forecasting LCTs as part of the tRESP and load planning work, as well as Ofgem's approach to flexibility for ED3.

Enhanced Coordinator Role

- 1.7. **We agree with and support the concept of an Enhanced Coordination role**. ED3 presents a clear opportunity for greater collaboration between DNOs and local stakeholders, ensuring coordinated plans that maximise system benefits.
- 1.8. A practical model of how this role would work would be helpful and is not included in the consultation. This should include the overall policy objective, key roles and responsibilities of the DNO and other parties, and interactions with other areas such as the Warm Homes Plan. **We are very well placed to support the development of this model, through the approach set out in our ED3 BPI Early Proposal and our RIIO-ED2 pilots we are mobilising this year**. Specific elements of our pilots that are relevant to help build on the Enhanced Coordinator role are: working collaboratively with local authorities and partners; the use of digital tools and data sharing; and work on customer experience and end-to-end journey mapping, including how we gain buy-in from our local communities.
- 1.9. With regards to the proposed licence changes to enact the Enhanced Coordinator role, we understand the need for Ofgem to look at this but note there is a real **risk that these requirements become overly prescriptive and process driven rather than outcomes based**. We would urge that changes here build on existing successes and do not place additional regulatory burden on DNOs without clear added value for consumers. It is important that Ofgem also recognises other factors that can impact on the level of engagement we are able to have, such as the resourcing and capability challenges faced by some local actors.
- 1.10. We note Ofgem's consideration of a wider role for the ISG in this area. The ISG play a critical role in shaping our business plan, providing independent scrutiny and challenge to ensure our plans reflect the stakeholder needs. However, we have some **concerns with extending this role to include monitoring against a formal licence obligation**, and there is a risk that this blurs the line between stakeholder challenge and regulatory oversight. A more **appropriate role for the ISG may be to provide an independent review our Community Collaboration Plan** to ensure that it reflects our stakeholder needs.

Expanded Delivery Role

- 1.11. **We agree that there is a wider role for DNOs in the rollout of LCTs beyond the Enhanced Coordination role** as set out by Ofgem in the consultation. As noted above, **our RIIO-ED2 pilots will help inform key elements of both the Laying the Groundwork and Widening Participation archetypes**. This includes: (i) a framework for identifying use cases (technology mix, geographic focus and applicability to different types of housing types including social housing); (ii) partnership with commercial delivery organisations looking at opening

up new delivery channels, strengthening supply chains and increasing installation volumes at scale; and (iii) exploring potential alternative funding routes for LCTs including the commercial agreements required with installers and partners to enable delivery as well as alternative options for funding such as the National Wealth Fund or Great British Energy.

1.12. However, we must highlight that some of the proposals in the consultation would represent a very significant shift in the fundamental role of the DNO and the breadth of policy discussions that have been had on this at the Ofgem workshops on this topic is not reflected in the consultation. We appreciate that if Ofgem is to consider progressing with the Expanded Delivery role there will be a further consultation in the summer, however **given the extent of the possible changes, the following significant factors must be fully addressed in any subsequent consultation and impact assessment.**

1.12.1. **Fundamental legislation and / or licence changes** are likely to be necessary to implement some of the models set out in the consultation, particularly for those models that suggest an element of DNO funding and allow for DNO cost recovery. This should be fully considered as part of any next stage of the consultation process.

1.12.2. There is no mention of the potentially **significant financial implications and level of risk** that DNOs would be exposed to if Ofgem was to progress either the full Widening Participation or Focused Intervention archetypes. Any element of DNO funding is likely to have an impact on our risk profile and investor / lender perception, with knock-on impacts on financeability.

1.12.3. Obligating DNOs to install LCTs into households would **risk restricting competition in the delivery of LCTs** given that there are commercial entities that are well placed to provide this service. This needs to be fully considered to understand the risks versus the benefits for consumers.

1.12.4. **Affordability will be a key consideration for ED3** and must be factored in as part of this work. Particularly, the Widening Participation and Focused Intervention archetypes would have a **clear impact on affordability** given the premise of part or all of the funding being provided by future consumers through DNO bills, at a time where Ofgem is also signalling the need to invest in the network.

1.12.5. DNOs already have a very significant undertaking in ED3 to strategically invest in the distribution network to meet increasing levels of demand of consumers out to 2050. **Implementing some of the more radical options under the Expanded Delivery role would create a real risk of distraction** from this core activity.

1.13. In addition to the points above, given the level of change being considered here, it is important that any **assumptions put forward are fully tested and validated** as we develop with the different options, to ensure benefits are not significantly over or under-estimated. This points to the importance of a robust impact assessment before we can really assess and understand the implications. One key example is the underlying assumption that DNOs having a role in delivery and / or funding will significantly increase LCT uptake. Whilst this may be the case, there are several factors that influence LCT uptake and this needs to be tested against other solutions that could be implemented to increase LCT uptake without a change in DNO remit.

1.14. Similarly, we note the assumption that network benefits are only likely to be seen under a model where DNOs own the LCTs but would question the basis of this without further evidence to support. However, we note that this does open an interesting debate about the potential DNO ownership and operation of batteries. This is something we are interested in exploring further with Ofgem, noting that we have experience of the benefits that this can provide to consumers and the wider network through our Resilience as a Service innovation project. This was also something that we put forward as a BPI Early Proposal for ED3 (see Annex 3), but this was not taken forward by Ofgem.

1.15. To conclude, SSEN Distribution fully supports expanding the role that DNOs play in the rollout of LCTs. We are ready to support and to test in practice both the Enhanced Coordinator role and elements of Expanded Delivery role (including the Laying the Groundwork and Widening Participation archetypes) through the pilots we will be running in RIIO-ED2. We are unable to support the Focused Intervention archetype and elements of the Widening Participation archetype at this stage as there is significant further work and development required to fully understand the financial and risk implications. Whichever model is ultimately pursued, it must address a clearly identified policy objective and problem statement; support vulnerable customers through the energy transition; and ensure that impacts on key areas such as risk allocation and financeability are fully assessed and accounted for, with deliverability in practice a key consideration throughout. In the short-term, we would welcome clarity on any potential implications on ED3 business plan, as planning is well underway ahead of our July submission.

Yours sincerely,

Clothilde Cantegreil

Head of Strategy and ED3 – SSEN Distribution