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Wales & West Utilities (WWU) response to Ofgem consultation DNOs' future role in supporting the rollout of low carbon technologies

Dear Jack,

Thank you for the opportunity to respond to this consultation. WWU is a gas transporter and a regional gas distribution network ("GDN"), serving 2.6 million supply points in Wales and south-west England. This response is not confidential and may be published. We have not responded to questions 3,4,5,7,13 and bullet 1 of question 2 and have removed these questions from our response.

Overarching rationale

1 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?

Ofgem has recognised that the 2050 Net Zero target will not be achieved by leaving transition to the market; however, we do not think that DNOs are the appropriate bodies to provide the coordination. We note that proposing that networks take a significant role downstream of the end of their network is a significant departure from previous policy. Ofgem has previously strongly supported the supplier hub model whereby the supplier owned the customer relationship, this proposal seems to upend this model without explaining why. It seems

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strange for a DNO to have responsibility to the end of its network, the Supplier to be responsible for the meter and for the DNO to become involved again downstream of the meter. We think that there may be competition concerns if the DNO effectively controls the market for a significant number of consumers. Some of the proposed roles under the expanded role envisage the DNO acting as a bank, we would expect that new role will pose significant regulatory issues around financial regulation as well as potential questions from debt funders.

The HSE has recently issued a report stating that:

“Overall, HSE considers that it is potentially feasible to convert the natural gas system for use with 100% hydrogen heating..... No fundamental safety barriers have been identified by HSE’s assessment; however, a full evidence demonstration has not been made at this time.”

The UK government has now to make a policy decision on hydrogen for domestic heating and Ofgem should not develop policy proposals that assumes a particular outcome for that policy decision.

Enhanced Co-ordination

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

Paragraph 3.35 states

“We recognise the potential overlap between these activities, NESO’s RESP engagement in the nations and regions, and the future activities of the Warm Homes Agency (WHA), which will also convene local stakeholders. Regarding RESP Strategic Boards, our understanding is that the stakeholders and activities that DNOs will take into account through their Community Collaboration Plans are likely to differ, with RESP Strategic Boards focused on oversight, co-ordination, strategic steer and approval of the RESPs, while Community Collaboration Plans (as described in this consultation) will address more granular, near-term engagement. Regarding the WHA (Section 1.9), while the UK government's Warm Homes Plan set out the WHA's possible scope of activities, its exact role is still to be defined. Because of this, we propose that the scope of the activities proposed here, the work of the RESP Strategic Boards and the WHAs activities should be kept under review to prevent duplication of activity and co-ordination between these actors.”

We suggest that Ofgem and DESNZ need to understand the scope of the Warm Homes Agency before seeking to implement potentially overlapping or conflicting new roles for DNOs. The consultation mentions that the scope of activities of the Warm Homes Agency is unclear, therefore it does not seem sensible for Ofgem to propose an enhanced coordination role for DNOs at this time. Our understanding is that RESPs will not go down into the granular detail; however, the exact role RESPs outputs have in terms of networks’ business plans is still unclear. We suggest that Ofgem would be better putting resources into providing clarity in existing areas rather than creating new roles that will raise their own questions regarding scope and interaction.

The enhanced coordination role proposed for DNOs fall short of a planned managed rollout of low carbon technologies which would require the UK government to make a number of policy decisions and a decision on mandating technologies for certain areas. Whatever the merits of different technologies achieving Net Zero in 2050 with the current customer led approach seems unlikely at best. The Supplier led rollout of smart meters has taken far longer than originally expected and is far simpler than achieving the rollout of net zero domestic heating.

6 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 do not expect this enhanced coordination proposal will deliver significant whole area conversion. GDNs need to be involved in any discussions as if part of the gas network is to be decommissioned this needs to be done in the most efficient way possible and it should not be done by choosing the cheapest option for the electricity network regardless of the cost to the decreasing numbers of gas customers.

8 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?

Our understanding is that RESPs will only be advisory to networks and will not include all investment that might be required as RESPs Strategic Investment Need work only covers "complex" schemes. RESPs in particular and NESO's output in general is constrained by the obligations in its two licences to produce pathways that meet Carbon Budgets and the Net Zero 2050 obligation. There is therefore likely to be a tension between RESPs and the real-world reality.

Expanded Role

9 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?

Paragraph 4.1

"Expanding the role of DNOs in deploying LCTs and EE measures could increase the rate of these technologies being installed into homes and lower system-wide electricity costs. Rolling these out using an area-based approach and using their flexibility may reduce otherwise required investment in low-voltage networks, with potential additional benefits across distribution, transmission, and generation. We will assess whether this approach

delivers value for both the system and participating households and seek stakeholder input on whether to progress this work.”

The crucial part of this is “an area-based approach”. Area based approaches require planning otherwise they are patchy; while a patchy but relatively dense approach may still give benefits to the electricity network, it will not enable efficient decommissioning of the gas network that will still have to be maintained and therefore the whole system cost will not be optimised. The Warm Homes Plan proposes to make some funding available for households not able to afford upgrades; however, it is reasonable to expect that the Warm Homes Agency will manage this relationship leaving no or little additional role for DNOs. In addition, non-domestic properties are connected across the system so it is highly likely that there will be non-domestic properties on the same main as domestic properties. It is therefore unlikely that the approach suggested will lead to decommissioning except to very local parts of the low-pressure system. While locally there may be pockets of households eligible for support, typically a housing development will contain a mixture of both properties and owners and therefore at best a patchy uptake is likely, for reasons including affordability, inclination, ability to cope with the work. As an illustration of delayed take-up consider the rollout of a new gas network to existing houses in an infill scheme. Such schemes are priced on an initial take up assumption and would only proceed when the required number of homes signed up. Over the next 20 years any new connections within the scheme area would be connected on the same terms as the original connections. The point being that it is recognised that not all the owners would want to connect or able to fund the work when the original offer was made. Any area-based rollout of Low Carbon Technologies under the current customer led process, seems likely to be one where there is an initial rollout followed by repeated return visits over time to those houses not included in the initial rollout.

10 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?

Any assessments of the benefits must take a whole systems approach and so must take into account both electricity costs and benefits as well as the cost of maintaining the gas network (with reduced customer base) or any gas decommissioning costs. Any rollout of electrification of domestic heating also needs to consider resilience as an outage on the electricity system could lead to households having no heating, no power, no phones and no transport if they have an electric car; these issues are probably more acute for customers in rural areas but do need consideration for all customers.

11 Do you have any views on the archetypes presented and their implications? Do you have any other approaches we should consider? Do you have any evidence on key components notably:

- 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?

We think that DNOs are unlikely to have the detailed information to identify suitable properties and they do not engage with customers on a regular basis. Suppliers are better placed to do this as they have a relationship with customers though we recognise that there are many reasons why this is not as easy as it might seem.

- 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?

We think that DNOs acting as banks making unsecured loans to domestic customers is likely to be extremely problematic both from a banking regulation point of view and also potentially in regard to debt funding.

- 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?

If DNOs are responsible for installation, then customers are likely to assume that they will be able to fully utilise them, for example they would probably expect to be able to export electricity produced by solar panels at all times. The more customer usage of Low Carbon Technologies is curtailed by the DNO the lower the customer benefits and this is likely to reduce customer acceptance of these technologies.

- 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?

We would expect that DNO control would be required to achieve network or system benefits; however, we think that this would conflict with customer expectations regarding usage, see our response to bullet four above. The more customer usage of Low Carbon Technologies is curtailed by the DNO the lower the customer benefits and this is likely to reduce customer acceptance of these technologies.

12. 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?

Pilots are very useful to assess customer acceptance and to identify real world impacts of proposals. WWU believes that just as trials of hydrogen for domestic heating were proposed,

then trials of Low Carbon Technologies across typical geographies are required. Trials need to be conducted in specific geographic areas to understand network and system impacts.

Without trials one or both of the following risks may materialise:

- Low Carbon Technologies are rolled out that fail to perform as predicted when installed in a variety of homes and operated by occupiers,
- there will be resistance to change from consumers.

Yours sincerely



Richard Pomroy
Regulation Manager
Wales & West Utilities