

### 3. UIOLI mechanism for key LV network activities

#### Type of proposal

Stretching commitment / New or enhanced service/**Delivery accountability mechanism**

#### Proposal summary

Ofgem introduced volume-based measures in the form of the LRE Volume Drivers in ED2. These are exceptionally sensitive to the unit rate that is set, and in ED2 these have acted as a disincentive to DNOs establishing proactive unlooping programmes (as the set unit rate is less than the actual costs DNOs incur).

Activities at this level are discrete high-volume interventions and are not well suited to licence level output metrics like NARMS or Load Index.

We propose that a Use-it-or-Lose-it (UIOLI) mechanism should be explored as an alternative uncertainty and accountability mechanism.

This would reduce the risk exposure to both DNOs and Ofgem around individual unit costs, whilst still enabling Ofgem to hold DNOs to account for this activity.

The UIOLI fund could be reviewed annually by Ofgem and increased if the DNO progresses additional activities in this area, if RESP volumes change, or if the costs associated with those activities were to increase.

#### Which ED3 outcomes does the proposal support? (confirm all that apply)

**Investing for the energy transition/** Responsible and sustainable business/ Smarter networks/  
Resilient networks

#### Which Consumer Interest Pillars does the proposal support? (confirm all that apply)

**Low cost transition/** Fair prices/ Quality and standards/ Resilience

#### Summary of key reason(s)/driver(s) for the proposal

DNO activities at LV (including unlooping of LV Services) are essential and must be delivered at pace in ED3. Failure to provide this capacity will restrict customer choice, undermine safety, create future delivery bottlenecks, and hinder decarbonisation and economic growth.

Whilst the needs case is understood, the exact volume of interventions is uncertain and the costs vary depending on delivery complexities and the mix of work required.

In ED2, the LRE VDs were introduced to manage volume uncertainty. These are exceptionally sensitive to the unit rate and DNOs provided Ofgem with evidence that the ED2 unit costs do not

enable them to recover their costs. The LVSVD presently acts as disincentive to proactive unlooping.

[REDACTED]

In ED3, a continuation of a volume driver risks disincentivising these activities at a time where a proactive, programmatic approach is being encouraged alongside high-quality reactive works. A UIOLI mechanism would reduce the risk exposure to both DNOs and Ofgem around unit costs, whilst still enabling Ofgem to hold DNOs to account.

### Summary of supporting evidence *(Examples could include references to sector specific intelligence, innovation projects, ISG engagement, wider consumer research, endorsement from third parties)*

In November 2025, we submitted RFI evidence to support Ofgem's ED2 LRE volume driver review, in this response we detailed that the unit cost set for the ED2 LRE volume driver has not allowed us to recover our costs of delivery for this essential activity. This is not sustainable for ED3.

The Ofgem SSMC (para 3.40) set out that key stakeholders including the Department for Energy Security and Net Zero (DESNZ), NIC, and consumer groups have expressed strong support for a coordinated, programmatic solution to unlooping in ED3.

Early consumer research has highlighted that most customers support unlooping once explained—particularly when framed as a long-term, one-off upgrade that future-proofs the network, enables fair access to low-carbon technologies, and avoids repeated “sticking-plaster” works. Support is stronger for proactive, area-based delivery, provided disruption, costs and impacts on vulnerable customers are clearly explained and transparently managed.

### Summary of potential benefits

Our proposed UIOLI mechanism would allow

- DNOs to adopt a programmatic approach to key LV network activities including proactive unlooping whilst simultaneously managing efficient delivery of reactive interventions.
- Ofgem to monitor of actual costs incurred and volumes delivered to assess suitability of remaining pot.
- Underspends to go straight back to consumers, without the TIM applying.

**Where the proposal relates to a new or enhanced service or to stretching commitments, explain why the proposal is not already business as usual or incentivised either through the existing RIIO-ED2 framework or under ED3 proposals that we are consulting on**

N/A – proposal does not relate to a new or enhanced service or a stretching commitment.

Where the proposal relates to a new or enhanced service, explain why DNOs are best placed to undertake the activity described under the proposal

N/A – proposal does not relate to a new or enhanced service or a stretching commitment.