

Mike Duncan
Head of Policy, DSO Regulation
Energy Systems Management & Security
Commonwealth House
32 Albion Street
Glasgow
G1 1LH

9 November 2022

Dear Mike

Distribution System Operation Incentive Governance Document

I am writing on behalf of National Grid Electricity Distribution (South Wales) plc, National Grid Electricity Distribution (South West) plc, National Grid Electricity Distribution (East Midlands) plc and National Grid Electricity Distribution (West Midlands) plc, in response to Ofgem's recent informal consultation on the Distribution System Operation ('DSO') Incentive Document.

National Grid Electricity Distribution ('NGED') welcomes the opportunity to comment on guidance document which will form a part of the RIIO-ED2 price control. Our ability to review and fully consider the suite of RIIO-ED2 proposals has been hampered by the fact the consultation on the proposed RIIO-ED2 licence has been staggered across publication dates due to some policies still being under consideration.

It is important that DNOs are able to view all parts of the licence and its Associated Documents together to be able to understand how the price control components will work in unison and have a clear and complete set of expectations and obligations.

DSO Incentive Framework

NGED welcomes the intent of the DSO Incentive, which provides a method to value and financially reward improvements to DSO capability and outcome delivery.

We agree with the position of basing the evaluation criteria around the DSO roles set out in the RIIO-ED2 Business Plan Guidance, however we feel the weightings distributed across the roles may benefit from being able to be calibrated in the future. There should be the expectation that as there is an increase in maturity within the DSO domain, then a greater proportion of the incentive should be driven by mechanistic outcomes. As currently proposed, there is no mechanism to revisit the weightings.

The reporting cycle for the DSO incentive seems reasonable, however there is no commitment for visibility of the dates for DSO performance panel sessions. As the performance panel sessions can be scheduled throughout June and July, sufficient forward notice of the selected dates should be given in advance of the questions being submitted to the DSOs 10 days' ahead.

DSO Stakeholder Satisfaction Survey

NGED welcomes the position that the survey is completed across DNO groups, rather than on a licence area basis. This will reduce the risk of stakeholder fatigue. However, some stakeholders (ESO, Local Authorities) will have interactions across multiple DNO groups. Consideration should be given as to whether engagement from multiple DNO groups is unavoidable and if not, there should be a process established to coordinate this approach.

For the DSO Stakeholder Satisfaction Survey to be issued by 30th April, it needs to have the methodology approved by Ofgem. Clear expectations of timescales for submission to Ofgem and time for approval need to be set out within the licence drafting. It is unclear as to whether this methodology may need to change through the RIIO-ED2 period. The ability to resubmit the methodology for approval within the price control should be considered.

DSO Performance Panel assessment

To promote transparency and openness of the assessment process, the organisation of the panel meeting, reports and papers should be published on Ofgem's website.

The licence drafting notes that certain activities may be out of scope for assessment under the DSO Performance Panel. We expect guidance on activities within this scope to be included when Performance panel report guidance is issued, ahead of assessment and not solely post-assessment within the DSO Incentive Report.

Outturn Performance Metrics

We strongly disagree with the position to switch the weighting for the Outturn Performance Metrics to zero for the period 2023/24. The DSOs and Ofgem have worked collaboratively since before RIIO-ED2 Draft Determination to structure the metrics and we find there is little evidence or rationale to suggest these metrics are not currently appropriate. NGED supports the metrics being switched on from the start of the RIIO-ED2 price control.

The Flexibility Market Testing Outturn Performance Metric is currently only targeted at the primary network, leaving no incentive covering flexibility market testing of the secondary network. We feel there is sufficient evidence on both primary and secondary network market testing to set appropriate targets.

Consideration should be given as to whether 'MVA capacity released' is an appropriate metric to report on annually. Reinforcement schemes will only release capacity once energised, whereas financial expenditure may be incurred much earlier. Additionally, reinforcement schemes may be completed across multiple financial years. Linking market testing to financial reporting may be more valid.

The Secondary Network Visibility Outturn Performance Metric considers both monitored and unmonitored sites, with the latter benefiting from modelling improvements using extrapolated data from the LV network monitoring and smart meter data. In order to plan a secure and resilient network, forecast demand for both monitored and unmonitored sites will require network modelling using customer load behaviour assumptions to cater for future load growth, unmetered supplies and weather correction. As long as the same assumptions are used between monitored and unmonitored sites, the MAPE should be comparable, giving confidence in the underlying

assumptions, negating the need for independent assessment by a third party. For completeness, we believe the independent assessment is not required as the accuracy outturn of this metric will demonstrate how well calibrated any modelling processes or assumptions are.

The utilisation of the assets should be based on the same methodology used to determine this metric under the LRE Volume Driver.

The Curtailment Efficiency Outturn Performance Metric should also exclude any outage or curtailment resulting from a planned network outage if the connection is a standard non-firm connection.

In conclusion

This letter provides a high level overview of a number of DSO incentive licence-related issues. We look forward to working with Ofgem over the coming weeks to ensure the RIIO-ED2 licence and associated guidance documents are appropriately developed to deliver the RIIO-ED2 settlement.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Branston', with a stylized flourish.

PAUL BRANSTON

Regulatory & Government Affairs Manager
National Grid Electricity Distribution