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**Mike Duncan**

Ofgem  
By email

8<sup>th</sup> November 2022

**RE: Consultation – Distribution System Operation Incentive Governance Document**

Dear Mike,

SSEN-Distribution (SSEN-D) welcomes the opportunity to comment on the Distribution System Operation Incentive Governance Document following our involvement (along with the other DNOs) in the recent Ofgem DSO ODI Working Group that contributed to much of its content.

1. We are pleased to see that Ofgem had taken on board many of the recommendations we had put forward in our final Business plan for a DSO ODI-F including a stakeholder survey and performance panel along with metrics on flexibility and visibility. We had tested a range of metrics with stakeholders prior to submission of our final business plan and they prioritised these areas.
2. Measuring DNOs on delivering DSO capabilities is key in ED2 to ensure value for consumers and gain an accurate picture of the progress that is being made across industry.
3. Engagement with Ofgem through the DSO ODIWG has been invaluable to help shape the final product, but it is disappointing to see there are still a few unanswered questions and issues in the Governance Document. SSEN have included a copy of the Governance Documents with comments, but we are happy to outline those concerns below.

**DSO Incentive Framework**

4. As stated above the DSO ODI framework outlined is similar to what SSEN proposed in our final Business Plan for ED2 however we are surprised to see no mention of the intended size of the incentive. We note that Ofgem has not yet reached a final decision on the size of the incentive (currently proposed at 0.2% of RoRE). However, given the importance of DSO roles and responsibilities in ED2, we encourage Ofgem to consider a higher reward opportunity.

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5. During the work groups we repeatedly fed back, along with other DNOs, that we were concerned about the high weighting applied to those elements that will be based largely on subjectivity (Stakeholder Survey and Performance Panel), in comparison to outturn metrics and would suggest a rebalance between objective (quantitative) and subjective (qualitative) measures. The concept of DSO is still evolving and this, combined with the nascency of the flexibility market, means that DNOs could (particularly in the performance panel) be judged with high levels of subjectivity rather than Ofgem's baseline expectations of DSO capabilities.
6. This compounds the risk that DNOs expend effort on trying to influence perception rather than delivering tangible improvements. We have compared the success of incentives used in RIIO-ED1 and we have found that incentives which rely on clear and robust performance metrics have led to significant performance improvements, whereas qualitative metrics deliver lower levels of performance. SSEN believe a fairer distribution would be 25% for the Stakeholder Survey and 25% for the Performance Panel with outturn metrics weighted at 50%.
7. As you have indicated that you are not in a position to finalise Outturn Performance Metrics in the first year, SSEN would propose operating in the first year without reward or penalty for the entire ODI to mitigate some of the associated risks. This would also offer the opportunity to inform setting of baseline and targets, to ensure that these are appropriate and fair.

#### **Performance Panel**

8. Notwithstanding our concerns about the weightings, SSEN welcomes the role of a Performance Panel. That said, this is a new, untested process and we would support this operating in the first year without reward or penalty as stated in paragraph 6 above.
9. Ofgem must ensure that conflicts of interest are avoided in the formation and operation of the panel, and should focus on the appointment of independent experts, trade bodies, industry associations and consumer groups rather than stakeholders with a direct commercial relationship with DNOs. Stakeholder views will already be captured through the stakeholder survey.
10. SSEN was also pleased to see that Ofgem had adopted our recommendation of a page limit for the DSO Performance Panel Submission.

#### **Stakeholder Survey**

11. Again, notwithstanding our concerns about the weightings, SSEN welcomes the role of a Stakeholder Survey though we reiterate that this is a new, untested process and we would support this also operating in the first year without reward or penalty as stated in paragraph 6 above.

12. SSEN is also concerned about the current restriction on the length of the list in which we outline our deliverables. The three lines that Ofgem use to introduce the first theme (Coordination) exceed the 300 characters limit. It therefore seems a challenge for DSOs to adequately outline their deliverables to stakeholders, such that they can make an informed decision, in so few words.

#### Outturn Performance Metrics

13. **Flexibility Market Testing** – SSEN welcome the decision to apply this metric to the primary network only. Clearly there is a need to encourage flexibility at lower voltages, but further work is required at industry level to ascertain how this metric could be extended effectively.
14. **Secondary Network Visibility** – SSEN note that this metric has been altered from the initial proposal, but it appears to now include the accuracy of utilisation forecasts rather than simply network visibility and we have a concern this could discourage the use of network investment/flexibility if operating close to the capacity of an asset is rewarded. SSEN would prefer a simpler measure of network visibility that omits this element.
15. **Curtailment Efficiency** – whilst SSEN welcomes this metric we were disappointed to see that Ofgem intends to apply it retrospectively for existing connections. During the lengthy deliberations on Access SCR careful consideration was given to exactly this aspect and it was decided that it would not be appropriate. SSEN would ask Ofgem to apply the same reasoning here.

#### Regularly Reported Evidence

16. SSEN welcomes Ofgem's decision to reduce the number of RREs from an initial proposal of 16 to 4 and align them with the three key activities in the baseline expectations.
17. SSEN is concerned about how they are presented to the Performance Panel though. Ofgem has said these should not form part of the quantitative assessment as these are not performance metrics. However, it would be difficult for the panel to ignore them if they are part of the Performance Panel Submission as stated in 4.16. SSEN suggest they are therefore not included in the submission.

Yours sincerely,



Steve Atkins

Senior Whole System Strategy Lead