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# ADE Response | Ofgem Distribution System Operation Incentive Governance Document | 4 November 2022

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## Context

The ADE welcomes the opportunity to respond to Ofgem's Distribution System Operation Incentive Governance Document.

The ADE is the UK's leading decentralised energy advocate, focused on creating a more cost effective, low-carbon and user-led energy system. The ADE has more than 150 members active across a range of technologies, including both the providers and the users of energy equipment and services. Our members have particular expertise in demand side energy services including demand response and storage, combined heat and power, heat networks and energy efficiency.

## Overall Evaluation

We support the development of the DSO incentive and the principles outlined in the governance document, namely: encouraging the development of flexibility markets, standardisation of DSO activities, achieving full network visibility and better digitalisation, and monitoring curtailment efficiency. In particular, we support the establishment of a performance panel and believe this will aid in industry confidence in DSO performance.

## Areas for concern/further consideration

There are a number of areas where we believe further discussion and development is needed:

- **On the performance panel:** It is important that the right balance is struck for the workload of panel members, given the number of DNOs as compared to the singular ESO. However, it is equally important they are provided with sufficient resources, both in time and information, to adequately carry out their duties. The depth of resource likely to be dedicated by the DNOs should not negate the considerably more constrained capacity of smaller stakeholders. How this balance is struck should be explored further by Ofgem through industry engagement.
- **On outturn metrics:** We are very keen to be involved with the development and details of these metrics. It is imperative that the incentive does not become one of the 'least ambitious programme' whereby all DNOs are implicitly incentivised to set less ambitious targets in order to align with the least developed network operator. In other words, a mechanism will need to be developed so that DNOs genuinely attempting to roll out innovative approaches to system operation and flexibility markets are not encouraged to understate their ambitions for fear of falling short. Meanwhile, less ambitious operators may be rewarded for performing minimally better than previous years. Furthermore, these metrics ought to be sufficiently detailed so that industry has a clear baseline against which to judge performance throughout the year. We are aware that discussion to date has addressed the possibility of asymmetric targets and believe this approach should be taken with the DSO incentive.
- **On use of the Common Evaluation Methodology (CEM):** In our engagement with the Open Networks Programme and our consultation response, we have consistently raised our

concerns that the CEM, as currently devised, does not sufficiently take account of the option value of flexibility. The Product team has been pointed in the direction of expert groups with prior experience of option valuation and probabilistic analysis in the electricity system context, who have responded with a number of examples of their work, and an invitation to arrange a call to discuss further. To date, we have not been told whether this has been availed of. Should this tool become part of the DSO incentive it needs to be further developed, including with input from Ofgem.

- **On DSO/ESO coordination:** We strongly believe in the need for increasingly coordinated plans between transmission and distribution system operators. This will likely only increase with the development of the ISOP. The principles for such coordination are not well evolved in the incentive documentation to date. In particular, the harmonisation of advancements in digitalisation and IT upgrades should be prioritised. A common and transparent approach to data sharing and network visibility is needed. The DSO incentive and performance metrics should contain explicit provision for this.

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