

**Octopus Energy**

UK House,  
164-182 Oxford Street,  
London W1D 1NN

**w:** octopus.energy

**e:** hello@octopus.energy

**p:** 0808 164 1088

DSO Regulation

Sent by email to: [flexibility@ofgem.co.uk](mailto:flexibility@ofgem.co.uk)

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**Octopus Energy's response to Ofgem's consultation on the RIIO-ED2 DSO Incentive Governance Document**

Dear Mike and team,

Thank you for the opportunity to provide feedback on the Distribution System Operation (DSO) Incentive Governance Document.

The DSO Incentive Guidance Document is important given the nascency of this incentive in the price control for DNOs and therefore the more that can be done to standardise the process and crystallise the information requirements from DNOs before the price control period commences the more useful the information reported will be and the more trust there will be in the decision on each DSO's reward/penalty. We appreciate the development of the DSO incentive and related documentation since Ofgem's Draft Determinations, published earlier this year, and are glad to see that Ofgem has taken on a lot of the feedback provided through this consultation process and from discussions which took place through the DSO Incentive working groups.

Broadly we are content with the vast majority of the developments and particularly the progress made to the outturn performance metrics, which in our view now far more accurately measure and reward DSOs appropriately for good performance in relation to expected DSO behaviours. We recommend that Ofgem considers opening up the Performance Panel sessions to allow stakeholders to join and that an annual session is held by Ofgem with representatives from the DNOs and with stakeholders to discuss the DSO Incentive Report to hold DNOs to account and to use reputational risk to drive improvements.

We have taken this opportunity to provide a few final points for consideration in relation to each section of the DSO Incentive Governance Document before Final Determinations.

Please get in touch with [madelaine.brooks@octoenergy.com](mailto:madelaine.brooks@octoenergy.com) or [kieron.stopforth@octoenergy.com](mailto:kieron.stopforth@octoenergy.com) in the first instance if you wish to discuss any of these points further.

### DSO incentive framework

- As urged in our response to the Draft Determinations Consultation, we believe the value for each evaluation criterion which makes up the DSO incentive should be split evenly across metrics, performance panel and stakeholder survey with 33% each so that there is a greater weighting towards mechanistic measures to monitor performance, and so the weightings for the more subjective elements of the incentive are reduced.
- The timeframes outlined in the reporting cycle are reasonable.

### DSO Stakeholder Satisfaction Survey

- We agree that the survey should be issued by a common, independent market research company. This is important to baseline participation from stakeholders and to standardise feedback.
- It will be important to have tools in place to ensure samples are representative that respond to each question (and this must be tailored based on the different makeup of each DNO's stakeholders).
- For the coordination stakeholder survey question, we suggest that the text is updated to reference alignment to standards which have been determined through the ENA's Open Network project.
- We support that respondents will have the opportunity to provide an unscored free text answer to provide direct feedback to help DNOs drive improvements in performance.
- We support that the satisfaction target is common across all DNOs. This is important to ensure that all DNOs are measured against the same baseline and to ensure DNOs that move fast and lead the way are recognised and rewarded for doing so.

### DSO Performance Panel assessment

- We broadly support the detail of the Performance Panel assessment and believe this will be an important feature of the incentive in the early stages of the DSO transition.
- Given how much freedom is given to DNOs to determine what information to include in their Performance Panel submission, we are concerned that this could make it difficult for panel members to accurately judge performance. We urge that Ofgem requires that Regularly Reported Evidence (RRE) is included by DNOs in their submission upfront to provide some comparable information which will help guide panel members in their judgement.
- We support the inclusion of an annual CfE on DSO stakeholders' feedback.
- We support the DSO Performance Panel session but are concerned by how prescriptive the requirements are. We urge that this is an open session whereby stakeholders are also invited to ask questions of the DNOs following the written questions submitted by the panel. There is risk that these sessions become too mechanical and we believe the more freedom that the panel have to use the

session as they see best, the better the quality of information they will get out of the sessions to help inform their scoring decisions.

### Outturn Performance Metrics

1. Curtailment efficiency
  - We broadly agree with this metric and how it has been developed. We support the inclusion of all existing non-firm connections in the measurement of the metric to minimise the risk of distortions and to encourage consistent drivers of behaviour from DNOs across all their connection types.
  - Some calibration may be needed by Ofgem based on the number of firm to non-firm connections that different DNOs have. This data should be reported by DNOs in the RRE as it will be necessary for industry to understand how this varies by DNO and the resulting impact that this has on the flexibility market tested by DNOs.
2. Secondary Network Visibility
  - We strongly support the developments of this metric since Draft Determinations. This is now an output performance metric measuring the value of achieving better visibility on the secondary network, rather than purely that additional visibility is obtained.
  - It would be useful to also report on the accuracy of directly monitored vs modelled sites to see how the different strategies and approaches from DNOs compare. This could be a requirement under the RRE which would be useful to track to encourage DNOs to share learnings in their approaches.
3. Flexibility Market Testing
  - We support this metric, although we urge that this also includes flexibility market tested on the secondary network. Only a few DNOs have currently committed to procuring services on the secondary network, but by the end of the price control period, we expect that this should be standard practice across all DNOs. Therefore the metrics must plan ahead for what good performance will look like at the end of the price control period and provide incentives to drive the achievement of this goal early on.

### Regularly Reported Evidence

- We suggest that an additional RRE should be reported which measures the number of connections and capacity DNOs have under firm/non-firm connections. This will be important to measure and compare against RRE 1 which measures the capacity released through flexibility.
- We suggest that an additional RRE is included which tracks the average accuracy score of forecasts across directly monitored and modelled substations. This would be extremely useful supplementary evidence supporting the secondary network visibility outturn performance metric and will allow industry to understand better how modelling approaches compare to direct modelling and therefore what the most cost-effective strategy should be for all DNOs to improve network visibility.

### Reporting and publications

- We strongly support the annual DSO Incentive Report which Ofgem will publish ranking DNOs' performance under each evaluation criteria. We believe this document will be crucially important to ensure industry-wide focus remains strong throughout the RIIO-ED2 period and to encourage open conversations which will drive DNOs to improve performance year on year.
- We suggest that the information requirements for DNOs under Standard Licence Condition 31E on flexibility procurement are also included in the report to ensure this document includes all important information to measure performance in one place.
- Alongside the report, we suggest that Ofgem holds an open stakeholder session, with representatives from each DNO to run through the results. This will allow stakeholders to provide direct verbal feedback to DNOs and will encourage a collaborative approach to encourage the transition to DSOs.