

By email: flexibility@ofgem.gov.uk

Your ref

Our Ref

Date

9th November 2022

Contact / Extension

Stephanie Anderson

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Dear Mike,

RIIO-ED2 DSO Incentive Governance Document Consultation

This response is from SP Energy Networks (SPEN). SPEN owns and operates the electricity distribution networks in the Central Belt and South of Scotland (SP Distribution plc) which serves two million customers, and North Wales, Merseyside, Cheshire, and North Shropshire (SP Manweb plc) which serves one and a half million customers. We welcome the opportunity to respond to this consultation as part of our overall engagement in the licence drafting process, which follows our active participation in Ofgem RIIO-ED2 workshops, Licence Drafting Working Groups, bilateral discussions, and response to the Informal Licence Drafting Consultation.

The DSO incentive will be key to ensuring that continued good progress is made in RIIO-ED2 to enable a fully functional DSO, which will help to realise decarbonisation in our local communities. SPEN therefore remains committed to the successful delivery of this incentive and will continue to work closely with Ofgem and industry to ensure that it is optimally calibrated to benefit DSO progress and customers.

Although teething issues are to be expected with any new incentive, in aggregate, the outstanding issues represent a material risk of undermining the outputs the incentive aims to achieve. We have outlined some of the key issues below:

- **Start Date of Incentive:** A substantial amount of work is still outstanding to deliver an incentive that best serves customers and network operators. We do not believe that it is realistic for Ofgem to complete all the work needed before April 2023. We therefore require certainty when the incentive will commence formally.
- **Reporting Timelines:** It is unlikely that we would have suitable data ready for publication and analysis for 30 April, in any year, to include as part of the DSO Performance Panel Submission. We submit our RRP returns on 31 July annually and these returns are required to be assured utilising Ofgem's Data Assurance Guidance process. Therefore, any assured data will not be available until August, so any incentive start date must take this into account. The reporting cycle should therefore be pushed out so that the DSO Performance Panel Submission is submitted by 30 August, with subsequent deadlines adjusted as necessary. This would align with existing RRP timelines.
- **Evaluation Criteria Weightings:** The weightings for each evaluation criteria should be adjusted to result in a more balanced split between qualitative and quantitative assessment. We believe a 30/30/40 split is more appropriate, with 40% assigned to the outturn performance metrics.
- **DSO Stakeholder Survey:** We have concerns over the early years of the survey, in which our stakeholders will still be developing an understanding on what the DSO's role involves. Therefore, results may suffer as a result of differing interpretations of the functionality of the DSO. There is also no process for appealing a score. DNOs should have an avenue to approach Ofgem for a potential exclusion of a survey based on set criteria. Similarly, we have concerns on the survey being an 'absolute incentive' rather than a 'relative incentive', where DNOs performance in the survey would be benchmarked against each other. This would reduce the bias that a group of stakeholders could introduce to the survey.

- **Target Setting:** The targets set will be fundamental to how the incentive works in practice, however we are yet to receive information from Ofgem on how or when these will be set. We therefore welcome further details from Ofgem on the next steps in this regard.

Our full issues log is attached as an appendix to this response. We look forward to continuing with our positive engagement as we move towards the beginning of RIIO-ED2. Please do not hesitate to contact me further should you have any queries in relation to this response.

Yours faithfully,



Stephanie Anderson
Head of Regulation