

Guidance

DSO Performance Panel – Voluntary Panellist Applications

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The Distribution System Operation (DSO) incentive aims to drive Distribution Network Operators (DNOs) to more efficiently develop and use their networks, taking into account flexible alternatives to network reinforcement. It leverages a combination of assessment criteria to ensure robust performance measures. It captures stakeholder views and incorporates a more holistic assessment through a new Performance panel.

The DSO Performance Panel will be an independent panel of experts and DSO Stakeholder representatives, who will have a role in challenging and evaluating distribution network companies' performance in RIIO-ED2 against a set criteria based on the Baseline Expectations for DSO (as set out in Appendix 1 of the DSO Governance Document) and the associated delivery of DSO benefits.

This guidance invites trade bodies, industry associations, consumer groups and other relevant individuals to nominate a voluntary representative to be part of the DSO Performance Panel (see Appendix 1 of this document). This guidance also provides a summary of the key information for voluntary applicants to consider before submission to join the DSO Performance Panel.

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Executive Summary

A key objective of RIIO-ED2 is to support the delivery of net zero at the lowest cost to the consumer, and the efficient operation of the energy system at all voltages is essential if this vision is to be realised. Distribution System Operation (DSO) is the set of activities that are needed to support this transition to a smarter, more flexible and digitally enabled local energy system (for more details see Table 1 in the main body below).

The DSO financial operational delivery incentive (DSO ODI-F) is a new incentive introduced in the RIIO-ED2 price control (2023-2028). It aims to drive DNOs to more efficiently develop and use their network, taking into account flexible alternatives to network reinforcement, in turn resulting in lower bills for consumers. The DSO ODI-F consists of three evaluation criteria: the DSO Performance Panel, a Stakeholder Satisfaction Survey, and three Outturn Performance Metrics. The purpose of this document is to start the process for voluntary nominations for DSO Stakeholder representatives on the Panel.

For the purposes of the DSO incentive, DSO Stakeholders are defined as individuals or organisations that affect or can be affected by the DSO activities⁶ of the distribution network company. They may have a direct or indirect interest in DSO activities, and their interaction could vary in frequency.

The DSO Performance Panel

The DSO Performance Panel will be an independent panel of experts and DSO Stakeholder representatives. The Panel will challenge and evaluate distribution network companies' performance in RIIO-ED2 against a set criteria based on the Baseline Expectations for DSO (set out in Appendix 1 of the DSO Governance Document¹) and the associated delivery of DSO benefits. The Panel will make recommendations to the Authority on the performance of the licensee for the purposes of the DSO ODI-F.

The high-level framework for the Panel we propose in this working paper has the following features:

- The Panel will comprise a mix of independent experts and DSO Stakeholder representatives.

¹ [Decision on the proposed modifications to the RIIO-2 Electricity Distribution licences | Ofgem](#) (located in "Subsidiary Documents – 17 February 2023 publication of Associated Documents and relevant issue logs.zip").

- The Panel will be chaired by Ofgem.
- Ofgem will also act as the secretariat.
- DNOs must publish and submit a DSO Performance Panel Submission by 30 April each year, relating to the previous regulatory year.
- DSO Performance Panel sessions will take place for each DNO, lasting 40 minutes (10minutes presentation, 30 minutes Q&A).
- DNO presentations will be based on the supplementary written questions provided by panellists following review of the DSO Performance Panel Submissions.
- The DSO Performance Panel Submission and responses provided in the DSO Performance Panel session will form the basis of the Panel's performance assessment.
- Panellists will determine a DSO Performance Panel score, based on pre-agreed assessment criteria.
- Panel members to commit a maximum of 10 working days per year.
- The Panel will be funded by Ofgem.

Next steps - Panellist applications

With the publication of this working paper, we invite voluntary nominations for trade bodies, industry associations, consumer groups and other relevant individuals on the Panel. Any applicants nominating a representative for the Panel are requested to submit the Nomination Form in Appendix 1 by 12 January 2024 to James Mackintosh at RIIOED2@ofgem.gov.uk.

The final panel membership will be a make-up of voluntary DSO Stakeholder representatives, recruited through the process outlined in this guidance, plus paid independent experts recruited through a separate open market process.

Following the publication of this working paper, we will continue work to put the Performance Panel in place for February 2024. We do not expect stakeholders to formally respond to this working paper. However, we welcome stakeholder views and if there are particular comments you would like to share with us, please send us an email to RIIOED2@ofgem.gov.uk.

1. Introduction

- 1.1 This guidance explains the setup of the DSO Performance Panel as part of RIIO-ED2 DSO financial operational delivery incentive (DSO ODI-F). It explains the Panel's purpose and scope, membership, operations, evaluation criteria, funding arrangements, and selection and application processes.
- 1.2 As a result of this guidance, we invite trade bodies, industry associations, consumer groups and other relevant individuals to nominate a representative for a voluntary panellist position on the Panel.
- 1.3 For more contextual information about DSO and the overall DSO ODI-F, see below.

Distribution System Operator (DSO) – what and why?

- 1.4 A key objective of RIIO-ED2 is to support the delivery of net zero at the lowest cost to the consumer. The efficient operation of the energy system at all voltages is essential if the net zero objective is to be realised. Changes are required to the operation of electricity distribution networks to maximise the value of decentralised, local markets for flexibility services and to enhance the visibility of network data.
- 1.5 For the purposes of this document, Distribution System Operation is defined as the engagements undertaken by the licensee pursuant to the operation of the Distribution System for planning and network development, network operation and market development of the Distribution System.

The DSO Incentive – an overview

- 1.6 The DSO incentive (DSO ODI-F) is a new incentive introduced in the RIIO-ED2 price control (2023-2028). It aims to drive DNOs to more efficiently develop and use their networks, taking into account flexible alternatives to network reinforcement. The key benefit to avoided or deferred network reinforcement is that can result in lower bills for customers.

- 1.7 DNO performance is evaluated against the DSO Baseline Expectations set out in Appendix 1 of the DSO Governance Document.² The DSO Baseline Expectations correspond to the three DSO roles and five DSO activities set out in Table 1 below.

Table 1: DSO roles and activities

Role	Activity
Role 1: Planning and network development	1.1. Plan efficiently in the context of uncertainty, taking account of whole system outcomes, and promote planning data availability.
Role 2: Network operation	2.1. Promote operational network visibility and data availability.
	2.2. Facilitate efficient dispatch of distribution flexibility services.
Role 3: Market development	3.1. Provide accurate, user-friendly and comprehensive market information.
	3.2. Embed simple, fair and transparent rules and processes for procuring distribution flexibility services.

- 1.8 A hybrid evaluation approach was developed for the DSO ODI-F to balance mechanistic and evaluative incentives. The three evaluation criteria, respective incentive weightings, and objectives are:
- DSO Performance Panel (40%): The establishment of the Panel will facilitate the ability to challenge and evaluate DSO performance against pre-agreed assessment criteria, bringing in additional expert views and reducing information asymmetry.
 - Stakeholder Satisfaction Survey (40%): Aims to encourage DNOs to proactively engage with DSO stakeholders, improving service levels.
 - Three Outturn Performance Metrics (20%): The metrics will facilitate comparison between licence areas and track performance over time.

² [Decision on the proposed modifications to the RIIO-2 Electricity Distribution licences | Ofgem](#) (located in "Subsidiary Documents – 17 February 2023 publication of Associated Documents and relevant issue logs.zip").

Related publications

- 1.9 Ofgem position paper on Distribution System Operation: our approach and regulatory priorities: [Ofgem position paper on Distribution System Operation: our approach and regulatory priorities | Ofgem](#)
- 1.10 RIIO-ED2 Final Determinations – Core Methodology Document, Chapter 4, Regulating Distribution System Operation functions: [RIIO-ED2 Final Determinations | Ofgem](#)
- 1.11 Electricity Distribution Licence – Special Condition 4.8 (Distribution System Operation output delivery incentive): [Decision on the proposed modifications to the RIIO-2 Electricity Distribution licences | Ofgem](#)
- 1.12 RIIO-ED2 DSO Incentive Governance Document: [Decision on the proposed modifications to the RIIO-2 Electricity Distribution licences | Ofgem](#) (located in “Subsidiary Documents – 17 February 2023 publication of Associated Documents and relevant issue logs.zip”)

General feedback

- 1.13 We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this guidance. Please send any general feedback comments to: feedback@ofgem.gov.uk.

2. The DSO Performance Panel

Purpose and role

- 2.1 The DSO Performance Panel will be an independent panel of experts and DSO Stakeholder representatives who will have a role in challenging and evaluating distribution network companies’ performance in RIIO-ED2, against pre-agreed criteria (set out in Appendix 6 of the DSO Governance Document) based on the Baseline Expectations for DSO (set out in Appendix 1 of the DSO Governance Document) and the associated delivery of DSO benefits. The DSO Performance Panel will provide DSO stakeholders and industry experts with a platform to hold the DNOs to account, adding greater transparency to the DSO ODI-F decision making process.
- 2.2 The DSO Performance Panel’s performance evaluation will result in a recommendation to Ofgem, which will review the available evidence to determine

a financial penalty or reward for the distribution network companies for the relevant regulatory year, in accordance with Part C of Special Condition 4.8.³

- 2.3 The Authority commits to fully considering and taking into account the Panel's views and giving them due weight in the deliberation process, but will not be obliged to act on the recommendations made by the Panel. The final decision on incentive payments or penalties will be informed by the Performance Panel's recommendations, but will ultimately be taken by the Authority.

Panel membership

- 2.4 The DSO Performance Panel will be comprised of at least four scoring DSO Performance Panel Members, who will have responsibility for performance evaluation, and a non-scoring DSO Performance Panel Chair.
- 2.5 The DSO Performance Panel Chair will be an Ofgem employee (Senior Civil Service level). We will keep these arrangements under review and consider whether it is appropriate to move to an independent DSO Performance Panel Chair in the future once the DSO Performance Panel is more established.
- 2.6 DSO Performance Panel Members will include a mix of voluntary DSO Stakeholder representatives, recruited through the process outlined in this guidance, plus paid independent expert positions recruited through a separate open market process.
- 2.7 For the purposes of the DSO incentive, DSO Stakeholders are defined as individuals or organisations that affect or can be affected by the DSO activities⁶ of the distribution network company. They may have a direct or indirect interest in DSO activities, and their interaction could vary in frequency.
- 2.8 We will keep the membership of the DSO Performance Panel under review to ensure that it is able to function effectively – such changes may have an impact on the makeup of the DSO Performance Panel.

Selection process

- 2.9 For DSO Stakeholder representatives, Ofgem invites nominations from trade bodies, industry associations, consumer groups and other individuals who are interested in voluntarily representing the views of a particular DSO Stakeholder group.

³ [Decision on the proposed modifications to the RIIO-2 Electricity Distribution licences | Ofgem](#)

- 2.10 Those who are interested in filling a voluntary position should submit a completed Nomination Form in Appendix 1 by 12 January 2024 to James Mackintosh at RIIOED2@ofgem.gov.uk.
- 2.11 When completing the Nomination Form, please explain the organisation's process in selecting a representative to sit on the Panel. Once a representative has been nominated, substitutes will be allowed only under exceptional circumstances.
- 2.12 The Authority will sift through the submitted nomination forms. The primary criterion in sifting is to ensure that a wide spectrum of stakeholders is represented. If we receive nominations from two trade bodies representing the same stakeholder group, we will select the nomination which provides better evidence of eligibility in the Nomination Form.
- 2.13 The independent experts will be hired on merit through fair and open competition. The process will follow Ofgem's standard recruitment principles and appointed members will receive suitable remuneration. This process will be separate to the DSO Stakeholder voluntary representative application process outlined in this working paper.
- 2.14 The balance of independent experts relative to DSO Stakeholder representatives will be determined by the quality of applications and nominations received. We will keep the membership of the DSO Performance Panel under review to ensure that it is able to function effectively.

Performance Panel Sessions

- 2.15 Prior to the Performance Panel Sessions, DNOs must publish and submit a DSO Performance Panel Submission by 30 April each year, relating to the previous regulatory year. The DSO Performance Panel Submission is an opportunity for DNOs to explain how they meet the DSO Performance Panel assessment criteria (set out in Appendix 6 of the DSO Governance Document). There are further details on how the submission should be approached by DNOs in Chapter 7 of DSO Governance Document.
- 2.16 We will also publish an annual call for evidence by the end of March of the previous regulatory year to request DSO Stakeholders' feedback on any areas of distribution network companies' performance with respect to the DSO Performance Panel assessment criteria. This will act to reduce the information asymmetry between the DNOs and the DSO Performance Panel.
- 2.17 Following the Performance Panel Submissions and call for evidence, each DNO will take part in a 40-minute DSO Performance Panel Session. DNOs will be asked to

give a 10-minute presentation as part of their DSO Performance Panel Session. The presentation will be based on written supplementary questions provided by the DSO Performance Panel to the DNO, no later than 10 working days prior to the DSO Performance Panel Session. The DSO Performance Panel can ask a maximum of 6 written supplementary questions in advance of the session. During the session itself, there will be 30-minutes allocated to additional Q&A following the 10-minute presentation.

- 2.18 All DSO Performance Panel Sessions will be chaired by a non-scoring DSO Performance Panel Chair. The quorum necessary for the business of the DSO Performance Panel will be at least 4 scoring DSO Performance Panel Members.
- 2.19 The Panel Sessions will take place at an Ofgem office, occurring over a one- or two-day period.
- 2.20 DSO Performance Panel Members will also need to be available for briefing sessions with Ofgem before the DSO Performance Panel Sessions (to be held remotely online). If required, subgroup meetings will be arranged outside of these times at a time convenient to subgroup members.
- 2.21 The DSO Performance Panel will provide general feedback on DSO Performance Panel Submissions and Sessions to the DNOs shortly after the conclusion of all DSO Performance Panel Sessions.
- 2.22 Panellists will determine a DSO Performance Panel score, based on pre-determined assessment criteria. The overall scores will be included in the general feedback. A report detailing the decision-making process will be produced by the Secretariat to provide further detail and transparency. For further details see 2.31 – 2.35.

Panel roles and responsibilities

Panellists

- 2.23 There will be a minimum of four panel members, comprised of both voluntary DSO Stakeholder representatives and independent experts recruited by Ofgem.
- 2.24 The role of a DSO Performance Panel Member will be to:
 - Review guidance on the purpose of the incentive and the DSO Performance Panel assessment criteria, as provided by Ofgem, prior to the DSO Performance Panel Sessions.
 - Attend all scheduled briefing sessions with Ofgem.

- Evaluate each DNO's DSO Performance Panel Submission, and join preparatory meetings (to be held remotely online) in order to develop supplementary questions in advance of the DSO Performance Panel Sessions.
- Engage in all DSO Performance Panel Sessions.
- Perform a joint end of year evaluation of each DNO's performance during the previous year, and score the DNO in accordance with the DSO Governance Document guidance (set out in Appendix 6 of the DSO Governance Document).

2.25 To carry out this role effectively, Panel Members will be expected to liaise with the DSO Performance Panel Secretariat (for example to help manage time commitments).

Time commitment

2.26 We expect a maximum of 10 working days per year will be required from each DSO Performance Panel Member.

2.27 We intend to hold six DSO Performance Panel Sessions each year (i.e. one for each distribution network company).

2.28 In addition to the six DSO Performance Panel Sessions, DSO Performance Panel Members will be expected to spend time reviewing the evidence and submissions and preparing for the DSO Performance Panel Sessions.

Panel Chair

2.29 The DSO Performance Panel Chair will be an Ofgem employee (Senior Civil Service level). The core responsibilities of the DSO Performance Panel Chair will be:

- Chairing DSO Performance Panel Sessions.
- Ensuring the DSO Performance Panel makes its recommendations according to the evaluation criteria.

Panel Secretariat

2.30 Ofgem staff will act as the DSO Performance Panel Secretariat, which will be responsible for:

- Coordinating with the DSO Performance Panel Members and the DNOs.
- Organising the DSO Performance Panel Sessions and any other meetings.

- Preparing relevant papers and notes from the DSO Performance Panel Sessions.
- Drafting an annual report to provide insight into the decision-making process undertaken by the DSO Performance Panel to determine the panel scores awarded (further details on the report are set out in Appendix 5 of the DSO Governance Document). The report will be published within the relevant section of the DSO Incentive Report.

Evaluation criteria

2.31 The DSO Performance Panellists will score the performance of the DSO in accordance with the criteria set out in Table 2 below. These are accorded different weights, which have been set in line with number of DSO Baseline Expectations that relate to the activity and their relative importance in delivering improved outcomes for network users. Further guidance on how to interpret the criteria is set out in Appendix 6 of the DSO Governance Document.

Table 2: DSO Performance Panel assessment criteria and weightings

No.	DSO Performance Panel assessment criteria	Weighting
1.	Delivery of DSO benefits	30%
2.	Data and information provision	20%
3.	Flexibility market development	20%
4.	Options assessment and conflict of interest mitigation	20%
5.	Distributed energy resources (DER) dispatch decision making framework	10%

2.32 If the Panel Members do not agree on the scores to be awarded, a vote will determine the final scores. If the votes are equally distributed then the Chair will have the final say.

Scoring guidance

- 2.33 When a DNO clearly demonstrates that its performance against the DSO Performance Panel assessment criteria has gone beyond Baseline expectations, then this should be reflected in an incentive reward. Equally, where a DNO has clearly failed to demonstrate that it has taken the necessary actions against the DSO Performance Panel assessment criteria to meet Baseline expectations, then this should result in an incentive penalty.
- 2.34 In reaching their scores, DSO Performance Panel members will be asked to assess performance in the round for each criterion considering the DSO Performance

Panel Submission, the responses to the call for evidence, the presentation provided by the DNO at the DSO Performance Panel session and the answers provided to the question-and-answer session at the DSO Performance Panel session.

- 2.35 More details on scoring guidance can be found in Chapter 4 and Appendix 6 of DSO Governance Document. In the build-up to DSO Performance Panel Submissions, we will also hold preparatory meetings to review the guidance with panellists to ensure it is understood.

Panel funding

- 2.36 The DSO Performance Panel will be funded by Ofgem. We will keep this option under review as the DSO Performance Panel develops.

Conflicts of interest

- 2.37 Prior to involvement with the DSO Performance Panel, DSO Performance Panel Members should ensure that there are no conflicts of interest that, in the opinion of a fair minded and well-informed observer, would suggest a real possibility of bias.
- 2.38 If a DSO Performance Panel Member has a direct or indirect interest which may be material or relevant, they will need to declare that interest to the DSO Performance Panel Secretariat who may refer the matter to the DSO Performance Panel Chair. The DSO Performance Panel Chair will then decide the most appropriate course of action, including the possibility that the conflicted DSO Performance Panel Member is barred from voting in any matter which relates to the area of conflict.
- 2.39 DSO Performance Panel Members will be expected to make every effort to represent the views of the industry as a whole and not any single organisation.

3. Next steps

- 3.1 Our timelines are built on having the DSO Performance Panel members confirmed by February 2024, with a joint kick-off briefing in early May. Our immediate next steps are focused on the selection and appointment of Panel members.
- 3.2 With the publication of this working paper, we invite voluntary nominations for industry representatives on the Panel. Trade bodies and industry associations interested in nominating a representative for the Panel are requested to submit

the Nomination Form in Appendix 1 by 12 January 2024 to James Mackintosh at RIIOED2@ofgem.gov.uk.

- 3.3 When completing the form, please provide evidence why the trade body or association is best suited to represent the views of one or more DSO stakeholder groups.

Appendix 1 – Voluntary Panellist Nomination Form Template

Nomination Form

A1.1 The information requested here will help us understand the organisation's suitability in evaluating DSO performance.

- Name of the organisation
- Brief description of role and purpose of the organisation (Please stay within 300 words)
- Date the organisation was established (dd/mm/yyyy)
- Registered Office Address
- Head office address (if different from the registered office address)
- Name and contact details of the CEO (or equivalent)
- Contact details of the person we will get in touch with about this application
- How many members does the organisation have in total?
- Please provide a summary of the services provided by the organisation's members and the sectors within which the members operate (please stay within 300 words)
- List of stakeholder groups you propose to represent at the Panel
- Please provide a summary of the process you propose to follow when selecting a representative to sit on the Panel on your behalf (please stay within 300 words)
- How will the organisation ensure that its advocacy or representation role will not cause any conflict of interest between advocating on behalf of its members, and in evaluating DSO performance (please stay within 300 words)