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15 March 2024

Sent by email to: [RIIOED2@ofgem.gov.uk](mailto:RIIOED2@ofgem.gov.uk)

Dear David

### ENWL response to RIIO-ED2 Distribution System Operation Incentive metrics consultation

We welcome the opportunity to respond to the published consultation covering the proposed changes to the DSO incentive.

The incentives framework is essential to be correctly calibrated in a RIIO regulatory model. Ex-ante incentive-based regulation as practised in GB is one of the leading global approaches and so should be maintained with incentivised rewards (or penalties) such as financial Output Delivery Incentives (ODI-Fs) being a key part of the regulatory proposition driving improved outcomes for consumers. ODI-Fs therefore are an important part of the regulatory package and should be predominantly metricised with limited use of subjective or qualitative assessment elements. Further any targets or any particular metric itself should be assessed for and have targets set specifically for the circumstances in each region. This is important for delivering clear outcomes in consumers interests, transparency, clarity of requirements including the aim of the incentive, and how it will be rewarded or penalised.

In our response to the RIIO-ED2 Draft Determination we suggested that the weighting of the DSO incentive be changed as set out in table 1. This was seeking to increase the use of principally quantitative measures with a reduction in the use or weight placed on qualitative assessment elements.

Element	Draft Determination	ENWL Proposal	Reasoning
Stakeholder survey	40%	30%	This is brand new, with a target ported from another process
Performance Panel	40%	30%	This is a subjective method of evaluation and so should be less relied upon
Performance Metrics	20%	40%	These are key measures that are important to deliver. It is actual delivery that should be the largest portion of the incentive reward (not perception of delivery as per the other two categories)

Table 1: Proposed weightings Incentive element



We have been actively engaged and vocally supportive of developing appropriate quantitative performance metrics as can be evidenced by our proposals in Table 1 as well as our stated preference for quantitative measures over qualitative elements. We do however recognise and agree with the evaluation in the Ofgem consultation that there are challenges with each of the three metrics, and in response to the specific **questions 1 to 3**, we agree with the recommendation not to switch on all three metrics for the reasons laid out.

We continue to believe that metrics focussed on DSO outcomes relevant for each regions customers are the most important aspect of any DSO incentive and as such support that work continue to develop representative metrics that are robust and reflect performance as well as consumer requirements or outcomes expected. As such, we agree with **question 4** that metrics should be a reporting requirement. Five reporting requirements already exist in the regulatory framework<sup>1</sup> and we agree with the proposed approach<sup>2</sup> set out in paragraph 4.5. Our agreement with Ofgem also extends to the position that all three metrics need different approaches and that the Secondary Forecasting (SF) and Curtailment Efficiency (CE) need significant work before they are fit for purpose. We consider that the Flexibility Deferral (FD) metric may need less fundamental work to operate as robust Regularly Reported Evidence.

In response to **question 5** (*do we agree with the alternative approach to re-assign the 20% value of the incentive to the performance panel assessment*), we do not agree with the proposal for the following reasons:

- **It is critical that any panel assessment is undertaken as an individual assessment on the company itself, and not a comparative assessment against other DNO groups.**<sup>3</sup> There are significant regional differences, as has been displayed through the RFI process developing these metrics, for uncontrollable and explainable reasons, and it is critical that these regional differences, and their reasons, are fully taken into account when the performance panel and Ofgem conduct their assessment.
- **We continue to view panels as an aspect of incentive mechanisms that can be prone to risk resulting in poor and unintended consequences for consumers.** It is vital that lessons learnt from the use of panel assessment in RIIO-ED1, in our experience under SECV, are fully applied to any panel approaches for RIIO-ED2. Guidance for scoring is particularly important and must be properly maintained and updated throughout the period to reflect what the evolving requirements are under the incentive. Ambiguity around requirements or standard changes from year to year does not benefit consumers as companies are less able to develop activities to meet the incentivised outcomes Ofgem is seeking.
- **Panels need to ensure that their members are clearly without any conflict of interest.** We acknowledge that Ofgem supports this already but we are concerned about perceived and/or potentially real conflicts of interest as we look back for potential lessons learnt in RIIO-ED1. For example, should a panel member be heavily involved in the activities of one or more DNOs, such as customer and stakeholder engagement and on work to address vulnerability, it is not sufficient in our view that they are NOT involved in scoring those companies they are directly involved with. But it is also vital they are not scoring any other companies because of the potential for a perception of bias towards what good looks like being from the activities they have been involved in at certain companies and not others.

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<sup>1</sup> Named 'Regularly Reported Evidence (RRE)'

<sup>2</sup> Paragraph 4.5 of the consultation. 'Our alternative proposal is to work with the DNOs to develop robust reporting requirements that allow us to build the evidence base to enable financially incentivised performance in these areas in RIIO-ED3.'

<sup>3</sup> The Distribution System Operation Incentive Governance Document is clear (paragraph 4.2) that the role of the panel is to challenge and evaluate distribution network companies' performance in RIIO-ED2 against a set of criteria based on the Baseline Expectations for DSO...

- **Panel-based or subjective assessment elements mean larger grouped companies have a natural advantage through utilising pooled resources across several licences.** This is through deploying the same solutions multiple times to each licensee and being rewarded for the same activities. As a single licensee, it is our experience that this has impacted assessment and levels of incentive payments in RIIO-ED1.

It is for these reasons that we do not support the 20% value of this incentive being re-assigned to the performance panel assessment element. Instead, and to equally balance the incentive between the stakeholder survey and the performance panel assessment, we propose that the 20% be re-assigned equally between these remaining two components of the incentive (10% to each). The incentive is new for RIIO-ED2, and still unproven with any percentage weighting attributed to each component being largely arbitrary at this point and therefore an equal weighting is a balanced outcome taking all these factors into account.

We note paragraph 4.6<sup>4</sup> and we have concerns that this provides an unfair advantage to those companies who have data compared to those who do not. The panel may perceive those who have “robust” data as being more mature or ambitious than those who do not, without taking into account the legitimate and uncontrollable reasons for why such data may not be available. What is of utmost importance is that any panel assessment is undertaken on consistent basis against a set of criteria to which all companies can meet. Any assessment should directly account for regional specific circumstances (which are outside of management control) and where companies are assessed solely on their own merits unbiased by the actions of others. Introducing an element of the assessment that all companies are not able to use because of uncontrollable factors risks the approach not being unbiased or a level playing field.

The recent study on regional variation in the uptake of flexibility services undertaken by WSP on behalf of ourselves and Northern Powergrid provides evidence of these regional differences. The study report can be accessed here [Regional variation in the uptake of flexibility services](#).

We trust our response is clear though should you have any queries or wish to discuss any of our points further then do not hesitate to contact me or Alison Scott ([alison.scott@enwl.co.uk](mailto:alison.scott@enwl.co.uk)) in the first instance.

Yours sincerely



**Cara Blockley**  
**Head of Distribution System Operation**

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<sup>4</sup> Paragraph 4.6 of the consultation. “we are also minded to allow DNOs who are able to report robust data with clear methodological approaches to use this data in the DSO Performance Panel Assessment”