

**Octopus Energy**

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

w: octopus.energy

e: hello@octopus.energy

p: 0808 164 1088

About Octopus Energy

Octopus Energy is a global clean energy tech business, driving the affordable, green energy system of the future. Under its own retail brand, Octopus delivers world-class customer service and cutting edge energy products to 7.7 million households globally. Its operations span 18 countries and the entire energy value chain. The group invests in, builds and flexibly manages renewable energy, operating a £6 billion portfolio of projects – one of Europe's largest.

Octopus has licensed its advanced data and machine learning platform, Kraken, to support over 54 million customer accounts worldwide through licensing deals with companies such as EDF, E.ON and Origin Energy. Kraken enables Octopus to drive the electrification of heat and transport through smart tariffs and innovative cleantech. Backed by pension funds, investors and energy giants, Octopus Energy Group businesses deliver cheaper, greener energy and cutting-edge tech to countries and customers worldwide.

For more information, check out [our website](#).

Overview

As the second largest electricity supplier in GB, we have always been reliant on the DNOs to transport power to our customers. Strong demand from our customers for intelligent and flexible low carbon technology solutions, which can help shift demand away from peak hours and reduce pressure on the system, means this relationship is evolving. Octopus already manages 1GW of flexible demand, the biggest virtual battery in Europe.

DSOs have a key role to play in supporting and incentivising flexible energy tech, including intelligent heat pumps, EVs, storage and renewables. The right DSO incentives will ensure these technologies can be used in the optimal way; meaning that they create value for individual customers and bring benefits to the system as a whole, reducing costs for everyone.

Beyond supporting consumer flex, DSOs also have several other responsibilities which are crucial for delivering Net Zero in a way that provides maximum benefits to customers. This includes network planning, active monitoring and providing the transparency needed to maintain security of supply whilst maximising the benefits of integrating low carbon

technologies. For this reason, we are supportive of Ofgem and DNO's efforts to accelerate the delivery of strong DSO capabilities across all of the network operators.

On this basis, it is very disappointing that Ofgem is reducing the ambition on quantitative metrics to measure and incentivise DSO performance. We supported these metrics as a beneficial way to improve standardisation and objective measurement of DSO progress; using flex to minimise reinforcement costs, optimising use of curtailable assets and understanding trends on low voltage networks are all critical indicators of success/failure for the DSOs.

We recognize that Ofgem has taken this position due to significant issues with data quality and availability in DSO submissions under the proposed metrics. However, granular and consistent data collection is a fundamental capability underpinning a DSO's key functions, and it should be an utmost priority for every DSO to achieve the necessary quality of data within the shortest possible timescale, and certainly before RIIO-ED3.

In our view, these issues in data quality have flagged a gap in regulatory standards or incentives placed on the DSOs to provide good quality data in these important areas. As such, we urge Ofgem to take a much stronger stance on using minimum standards and other regulatory levers to ensure DSOs continue to deliver for GB energy customers. This should include preparing the ground for use of output metrics as soon as possible, ideally at the back end of RIIO-ED2, rather than waiting for RIIO-ED3.

We only support the 'switching off' of these metrics for RIIO-ED2 on the basis that Ofgem specifies clear requirements for the DSOs to continue to report these metrics on an ongoing basis in RIIO-ED2, via the RREs and/or a more prescriptive performance panel submission format, with substantial improvements in data quality expected year on year. Performance panels should be required to assess DSOs explicitly on both metric performance disclosed and underlying data quality. Continued transparent benchmarking of DSOs against each other on these issues is also key.

We are concerned in general that poor performance from DSOs on data capabilities and other key functions risks holding back progress on delivering Net Zero at lowest cost to consumers. To help mitigate this risk, there are 3 sets of actions Ofgem can pursue to respond to the failure of quantitative incentivisation of DSO performance in RIIO-ED2:

1. **Take a firm position on DSO data quality expectations for the remainder of ED2:**
 - Ofgem should be explicit that DSOs must build the data quality required to set robust quantitative metrics on DSO performance in RIIO-ED3, or towards the end of RIIO-ED2.
 - If performance panels judge that DSOs have not provided the data required to achieve this then payouts under the DSO incentive should be capped at 80%, with no reward for the 20% of incentive originally earmarked for the quantitative metrics.
 - Given the importance of DSO data capabilities to the future energy system, Ofgem should pursue enforcement action under the licence conditions if it finds that data reported under these regulatory mechanisms is incomplete, inaccurate or following an incorrect methodology.

2. Ensure other incentives are in place to promote growth in consumer flexibility

- Consumer flexibility is currently reliant on DSO administered procurement processes to provide value to the system. It is therefore crucial that Ofgem has the right incentives in place for the networks to ensure they are maximising the value from this flexibility.
- Inconsistent and sparse data on flex procurement revealed by these incentive metrics has highlighted the inconsistency in DSO practices today. This risks holding back delivery of the £30-70bn benefits identified by government in the Smart Systems and Flexibility Plan.
- Ofgem should ensure that the DSO performance panel is provided with comparable quantitative data on flex procurement to assess performance in ED2 year 2 and beyond. Views of consumers and suppliers/aggregators who dispatch assets in DSO flexibility markets should also be captured in the DSO stakeholder survey.
- DSOs should also be required to report on both flex procurement and flex arranged under non-market approaches (e.g. ANM). Data should be provided for both categories in capacity (MW) and utilisation (MWh).
- As set out in our recent [report on local flexibility markets](#), DSO flexibility tenders are unlikely to be the optimal market design for consumer flex at scale. Reforming DUoS charges to introduce a dynamic price signal for distribution-level constraints will help future proof this market.

3. Prepare to strengthen RIIO incentives to drive DSO as BAU in ED3:

- Challenges with DSO data quality and network visibility are one of several growing issues on the distribution networks that risk holding back progress on decarbonisation. These include delayed major project connections, delays in the connection of consumer low carbon assets on the LV network, slow innovation and increasing congestion/constraints on the network.
- Whilst several DNOs are taking steps to address these issues, RIIO-ED3 must mark a step change in ambition and action across all of the networks
- In our view, much stronger financial and enforcement incentives will be necessary to drive the scale of action needed. We look forward to continuing to engage with Ofgem on this matter, and recommend Ofgem takes this opportunity to set a strong foundation on DSO data standards to enable higher ambition on incentives in RIIO-ED3.

Q1. Do you agree with our recommendation not to switch on the FDT outturn performance metric during RIIO-ED2? Please explain why.

We agree with this recommendation given substantial challenges in DSO data quality, but urge Ofgem to retain ambition on driving consumer flex forward at pace over the remainder of ED2 and beyond. Ofgem should be prescriptive in the assessment criteria and submission format for the DSO performance panel to ensure expectations on flex procurement are captured in the DSO incentive.

In the absence of this quantitative financial incentive for DSOs to efficiently procure flexibility, other incentives in the RIIO framework will also become more important. With

this in mind, Ofgem should continue to take a firm stance on 'flexibility first' as business-as-usual in DNO activities through any uncertainty mechanism assessments in the remainder of RIIO-ED2.

Over the longer term, Ofgem should also consider reform of DUoS tariffs to provide a more consistent price signal for flexible asset dispatch and future proof the design of this market.

Q2.Do you agree with our recommendation not to switch on the SFt outturn performance metric during RIIO-ED2? Please explain why.

We agree with this recommendation given substantial challenges in DSO data quality, but recommend Ofgem bring forward other ambitious measures to continue driving forward DSO progress in this area over the remainder of RIIO-ED2.

Visibility of the lower voltage network remains a challenge that is limiting the increased efficiency in LV network usage required to accelerate consumer uptake of low carbon technologies. The failure to define a quantitative measure for this in RIIO-ED2 highlights the challenge here. In our view, Ofgem should now take an alternative approach and drive progress on secondary network visibility using minimum standards on the installation of monitoring equipment on LV assets. Ofgem should consider using a target based approach implemented through licence conditions, similar to the roll-out of smart meters mandated via suppliers.

We recognize that this is regulating inputs and that this is suboptimal to the regulation of outputs. However, the failure to define a quantitative output metric has demonstrated that, without the right inputs in place, effective regulation of outputs will not be possible. This suggests it is time for Ofgem to mandate the inputs needed to set the foundation for a more robust and objective DSO incentive regime in RIIO-ED3 (or before wherever possible)

Management of voltage levels is another crucial issue for DSOs to manage, with evidence of some parts of the GB network running consistently over the statutory limits. While the UK has the first commercial V2G tariff (a testament to the regulatory regime here), a V2G offering will not succeed in the UK unless voltage remains within statutory limits. DSOs should also be required to report on the percentage of MPANs that breach the statutory limit for more than 5% of the time.

As with the other metrics, DSO performance in these areas should also be submitted to the performance panel in a standardised format to help build the evidence base needed for metric-driven financial incentives to be implemented as soon as possible.

Q3.Do you agree with our recommendation not to switch on the CEt outturn performance metric during RIIO-ED2? Please explain why.

We agree with this recommendation given substantial challenges in DSO data quality.

In response, performance on curtailed connections should be captured through the DSO stakeholder survey, with a section dedicated specifically to feedback from non-firm connection customers (numbers of which are increasing under recent connection reforms). Non-firm connections are a customer-facing product and DSO performance in this area is therefore best assessed by the customers themselves, in the absence of any quantitative measure. Questions in the survey section on non-firm connections should cover the process used to make the offer, benefits to the connecting customer, DSO collaboration in implementing any technical solutions, as well as ongoing operational performance (e.g. frequency of curtailment and visibility of curtailment instructions).

As with the other metrics, DSO performance in this area should also be submitted to the performance panel in a standardised format to help build the evidence base needed for financial incentives in RIIO-3. This should be done in a transparent way, to better help system users understand how to make the most of curtailable connection offers.

Ofgem should also ensure that non-firm connections are considered as part of the ongoing end-to-end review of connections incentives happening under the Connections Actions Plan (CAP). With non-firm connections being one of the key actions identified by DNOs to accelerate connections whilst transmission reinforcement is ongoing, any changes to the broader connections incentive framework should consider these new connections types as a priority.

Q4.Do you agree with our alternative approach to continue with the metrics as a reporting requirement? Please explain why.

Yes, we agree that metrics should be reported under regulatory reporting requirements . Given clear weaknesses in DNO data quality exposed by this metric setting process, Ofgem should take this opportunity to strengthen minimum standards on data across the breadth of DSO activities. This should be done with a focus on building the evidence base needed to set ambitious performance incentives on DSO for RIIO-ED3 (or sooner wherever possible).

Actions should include extending the RREs wherever necessary to build this evidence base (for the current DSO metrics and any key additional metrics Ofgem is minded to explore for RIIO-ED3), as well as setting a more prescriptive data template and methodology for the submission to the DSO performance panel. Given that the DSO performance panel is now 'stepping in' to fill some of the gap left by the failure to set quantitative performance measures, the panel should be provided with as much standardised quantitative data as possible (with acknowledgement of any ongoing deficiencies in DSO data collection or methodologies). Ofgem should also clarify that the panel is expected to explicitly assess the DSOs performance against all three metrics, taking into account any caveats on data or methodology, as well as on the quality/completeness of the data submissions.

Q5.Do you agree with our alternative approach to reassign the 20% value of the incentive to the performance panel assessment? Please explain why.

We agree that Ofgem maintains the strength of the financial incentive but propose that this 20% is split across the stakeholder survey and performance panel (e.g. with 10% reallocated to each). Where DSO activities are explicitly customer facing, feedback from these customers should be a priority for measurement of performance (in the absence of quantitative metrics). This is the case for curtailable connections, and to an extent effective procurement of flexibility products. As such, we recommend that some of the 20% financial incentive is weighted towards customer feedback via the survey, rather than entirely to the performance panel.

Given the importance of data quality and concerns over poor performance in this area, we also recommend Ofgem withholds the 20% from any DSOs whose performance panel submissions do not include accurate data in the prescribed format/methodology, thereby capping the DSO incentive upside at 80% for these licensees. As mentioned above, this should be coupled with enforcement of licence conditions on data submissions wherever relevant.