

By email only to [RIIOED2@ofgem.gov.uk](mailto:RIIOED2@ofgem.gov.uk)

15 March 2024

Dear David,

### **RIIO-ED2 DSO Incentive – Outturn Performance Metrics Informal Consultation**

This response is on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc.

Strong incentives are the most important part of the RIIO framework as demonstrated by the performance improvements seen in the RIIO-ED1 period. We therefore have championed the establishment of Distribution System Operation (DSO) outturn metrics into Electricity Distribution (ED) price controls, as we view them as crucial enablers to driving best practice on DSO related activities. This view was mirrored by many key stakeholders as part of the RIIO-ED2 engagement process. Indeed, Ofgem's Final Determinations recognises this by stating that "there was strong support for using three evaluation criteria as part of the assessment" and this struck "the right balance between mechanistic and evaluative means of assessment"<sup>1</sup>. It will therefore be a missed opportunity if DSO outturn metrics are not switched on in RIIO-ED2 as originally intended.

In our view, in the context of facilitating Net Zero at lowest cost, it is vital that progress is made on DSO. For example, the Government has recently stated that 55GW of low carbon short-duration flexibility will be needed by 2035, which is just over a decade away<sup>2</sup>. Much of this will be connected at the distribution level and will therefore depend on the maturity of DSO markets and licensees' capability to call and dispatch flexible resources. Whilst qualitative assessment has a role to play, we know from experience that quantitative assessment using robust metric methodologies that align to customers' priorities are the most powerful ways to accelerate progress. For example, since the creation of the Broad Measure of Customer Service and the Interruptions Incentive Scheme, customers across GB have experienced significant improvements in service levels and network reliability.

Nevertheless, we recognise that Ofgem have been hampered by both the lack of data and the quality of data it has received from some licensees. It has also been evident that these same licensees have not favoured quantitative assessment and did not agree with Ofgem's Final Determinations to establish three outturn DSO metrics with financial impact. This is a natural response if a company believes that it will struggle to perform well against expectations or its peers. More importantly, this way of thinking is not in customers' interests as it means industry progress is at risk of moving to the pace of the slowest performers instead of the fastest.

The key aim now should be to establish powerful outturn metrics, as soon as is practically possible, that align to the same outcomes as the metrics put forward for RIIO-ED2 Final Determinations. Specifically, these metrics would:

<sup>1</sup> Page 81 [RIIO-ED2 Final Determinations Core Methodology Document \(ofgem.gov.uk\)](#)

<sup>2</sup> As referenced in [Review of Electricity Market Arrangements: second consultation \(publishing.service.gov.uk\)](#)



1. Maximise the use of flexibility procurement wherever feasible as a way of providing network capacity quickly and efficiently;
2. Enhance the accuracy of LV network visibility and forecasting systems to ensure network capacity headroom is identified and made available for users<sup>3</sup>, and;
3. Drive the optimisation of curtailment in order to maximise the network access available for curtailable connections, which may otherwise have reduced output due to network congestion.

To make the necessary progress we believe that metric reporting should be implemented in RIIO-ED2 as a minimum, which will ensure that Ofgem has sufficient data to set stretching but attainable metric targets in future. As we are already about to enter year 2 of RIIO-ED2, our plan is to work with other willing licensees to implement a robust metric reporting process into the RIGs as soon as possible. This means that we will be able to report metric output performance to the Performance Panel from year 2, which will enable them to factor this into their end of year assessment.

Our view is that if licensees fail to adequately report metric performance in year 2 then they should expect to be marked down in the DSO Incentive. For years 3 to 5 of RIIO-ED2, we believe an opportunity remains to have outturn metrics with targets in place as originally intended, and we recommend that Ofgem does not rule out this option. For example, if all licensees adopt and comply with a new RIGs reporting requirement on DSO metrics in year 2 then this will make it possible to set targets once the first set of data is collected. Doing so will lessen the burden on the DSO Performance Panel and will ensure a more objective and transparent assessment is undertaken.

In the absence of clear DSO metrics there is a question over the legitimacy of licensees' investment decisions in RIIO-ED2, particularly in the arena of secondary network reinforcement. Put simply, to not be a blocker to Net Zero, licensees need to invest in the right place at the right time. The absence of DSO metrics should not be taken as a green light to just put copper in the ground in an arbitrary manner, nor should licensees be let off the hook when it comes to utilising data, flexibility and timely reinforcement where needs are clear.

In the appendix to this letter you will find responses to the individual consultation questions.

Yours sincerely,



**Sotiris Georgiopolous**  
Director of DSO  
UK Power Networks

---

<sup>3</sup> We do not accept the argument that forecasting utilisation on the secondary network is too challenging due to factors outside of DNOs' control. To accommodate new demand efficiently it is critical that forecasts have sufficient accuracy.

**Q1 – Q3. Do you agree with our recommendation not to switch on the FDt, SFt, and CEt outturn performance metrics during RIIO-ED2? Please explain why.**

We advocate for all three outturn metrics to be switched on in RIIO-ED2 as originally planned in Ofgem's Final Determinations. Whilst we recognise that switching them on with mechanistic targets in year 2 is now not possible, our recommendation would be to work towards a switch on in time for year 3 of RIIO-ED2. This would then still produce three years of outturn reporting. However, if this is not feasible, then our preference is for the outturn metrics to form part of the DSO Performance Panel assessment as set out in Ofgem's minded to position. This option will lead to a similar outcome to intended but without mechanistic targets being set. Instead, such targets would be set for RIIO-ED3 based on the available RIIO-ED2 data.

To ensure that outturn metrics can be switched on and drive the intended behaviour it is crucial that metric methodologies are further developed, and that clear guidance is produced for each metric. This is particularly the case for the SFt outturn metric, which we have previously flagged as being inappropriate and oversimplistic. Notably, in autumn 2023, we presented an alternative version of SFt to Ofgem and other licensees. We believe this version aligns more closely with the outcomes sought in Ofgem's Final Determination. We intend to work with other willing licensees to implement this version of SFt into the RIGs to feed into the DSO Performance Panel assessment in year 2. For the CEt metric, we believe most of the work has been done and that the focus is now on ensuring all parties understand the guidance and are interpreting it in a consistent way. Effort is also needed to ensure that all licensees submit the data they should have relating to their curtailable connections. For the FDt metric, whilst we believe the right principles are in place, we believe more work is needed on the reporting template and associated guidance. For example, it was unclear what data inputs should be used to represent the conventional reinforcement term. More broadly, we believe tweaks are required to ensure that FDt covers the relevant load related activities to appropriately reveal licensee performance.

More broadly we consider these metrics to be important tools in incentivising DSO performance in areas that customers have identified as a priority. We are, therefore, keen to continue to support Ofgem and industry in developing robust DSO outturn metrics.

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

We are very supportive of Ofgem continuing with the metrics as a reporting requirement, especially with a view to switching on the financial incentive aspect of the metrics as soon as is practically possible. Our view is that licensees should prioritise the finalisation of metric reporting templates and their guidance so that consistent metric data can be collected in the remainder of RIIO-ED2. This will ensure we build the reliable evidence base necessary to have robust DSO metric targets in place as soon as is practically possible.

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

For year 2 of RIIO-ED2 we support the reassignment of the 20% value of the DSO incentive to the Performance Panel assessment. We still believe that it is feasible to establish outturn metric

targets that get switched on for year 3 of RIIO-ED2, nevertheless, if this option is not pursued, we agree with Ofgem that their minded to position is the best alternative.

Additionally, we support Ofgem's position to allow DNOs to use metric outturn data in DSO Performance Panel assessments, subject to the data meeting certain criteria. We believe this is a good way to integrate metric data into the incentive process and will be supported by licensees leading work to embed robust metric reporting requirements into the RIGs over the coming months.