

To all electricity distribution  
licence holders and other  
interested stakeholders

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Date: 26 September 2024

Dear Colleague

**Decision on proposed modifications to Special Licence Conditions 1.2 and 4.8 of the Electricity Distribution Licence**

We published a consultation on proposed changes to Special Licence Conditions (SpC) 1.2 ('Definitions and references to the Electricity Distributors') and 4.8 ('Distribution System Operation output delivery incentive') of the Electricity Distribution Licence on 29 July 2024.<sup>1</sup> These proposed changes followed our decision on 26 April 2024 not to switch on the DSO incentive outturn performance metrics during RIIO-ED2.<sup>2</sup> This letter sets out our decision to make a modification to the Electricity Distribution Licence to implement the changes we consulted upon.

The reason for our proposal to amend the existing licence condition was to give effect to that decision, namely:

1. To not switch on the outturn performance metrics during RIIO-ED2;
2. To reallocate the 20% weighting (originally designed for the outturn performance metrics from Year 2 of RIIO-ED2) evenly to the performance panel and stakeholder satisfaction survey); and
3. The consequential impact of the decision on licence values.

We received five responses to our consultation, all of whom were electricity distribution licence holders. All respondents were supportive of the modification. We note several general points made by respondents about the need to progress work to develop metrics

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<sup>1</sup> [Proposal to modify Electricity Distribution Licence Special Conditions 1.2 and 4.8 granted or treated as granted under section 6\(1\)\(c\) of the Electricity Act 1989](#)

<sup>2</sup> [DSO Performance Metrics Decision](#)

that drives the most appropriate behaviour across DSO activities. We also note comments about the need to revise the DNO Governance document; Regulatory Instructions and Guidance (RIGs) and Regulatory Reporting Packs (RRPs). One respondent suggested not renaming Parts E & F due to the removal of Part D; and for Part D to remain but paragraphs 4.8.8 and 4.8.9 to be changed to state 'Not used' as it would maintain the integrity of cross referencing.

We intend to review version 1.0 of the Distribution System Operation (DSO) Incentive Governance Document in the near future with a view to consulting on any required changes later this year. We will also review the RIGs and RRP.

We recognise that further work is required to develop the current methodologies for performance metrics to a level where they can adequately function as a reporting requirement for RIIO-ED2. We encourage DNOs to bring forward proposals and will work with them over coming months to consider whether these can be considered as part of outturn performance metrics that could apply from RIIO-ED3. We would aim to consult on any proposed reporting requirement as part of changes to the RIGs and RRP such that they could take effect from 1 April 2025.

We have agreed with the suggestion of not renaming Parts E & F due to the removal of Part D; and for Part D to remain but paragraphs 4.8.8 and 4.8.9 to be changed to state 'Not used'.

### **Our decision**

Following careful consideration of responses, we have decided to implement the licence modifications as set out in the statutory notice of modification of SpC 1.2 and 4.8 which we have published alongside this document. This includes a tracked-change version of the modifications we will be implementing.

The licence modifications will come into effect on 21 November 2024.

A copy of this letter will be published on our website.

### **Nathan Macwhinnie**

Deputy Director, Price Control Operations