

## 2. Proposal name: Load Index metric (Aggregate Mechanistic PCD)

### Type of proposal

Stretching commitment / New or enhanced service/**Delivery accountability mechanism**

### Proposal summary

Given the scale of ED3 investment need and the requirement for DNOs to receive the majority of this funding on an ex-ante basis, there is a strong focus on DNO accountability for delivery.

We propose an aggregate Mechanistic PCD based on an output-metric using established Load Index reporting. This would apply to Primary reinforcement not already covered by the large intervention discrete PCD approach signalled by Ofgem (e.g. at GSPs and 132kV).

The metric would aggregate network capacity risk based on forecast loading (linking with tRESP Pathways). This could be used to create a Load Index based NARMS-like measure which is adaptable to changing requirements, tracking improvements from delivered interventions to check DNOs are providing the right capacity in the right place to meet future demand. Helping to ensure that harder to reinforce locations are not being left behind.

A licence-specific target (or targets per GSP Group) would be set based on ED3 BPDT submissions and assessed at the end of the ED3 period with potential to incorporate reward/penalty for over/under delivery within a deadband.

### Which ED3 outcomes does the proposal support? (confirm all that apply)

**Investing for the energy transition**/ Responsible and sustainable business/ Smarter networks/ Resilient networks

### Which Consumer Interest Pillars does the proposal support? (confirm all that apply)

**Low cost transition**/ Fair prices/ Quality and standards/ Resilience

### Summary of key reason(s)/driver(s) for the proposal

Anticipated increases in ex-ante allowances and a strong push for delivery at pace, means DNO accountability is in the spotlight for ED3.

However, the framework needs to balance delivery accountability with agility to enable DNOs to react and respond in-period. There is no single delivery accountability mechanism that is suitable for every circumstance, and the appropriateness of a mechanism depends on the scale, cost, and type of the intervention.

High value low-volume interventions (e.g. at GSP/132kV) should have more certainty and therefore more ability to be tracked using discrete PCDs (with flexibility still required for major new connections). At the other end of the spectrum, low-cost high-volume programmatic interventions (like looped services), require locational flexibility and tracking should be based on total volumes.

For investments that sit in between the low volume/high value and high volume/programmatic investments, accountability mechanisms need to ensure that sufficient interventions are being made where they are needed, and that the mechanism does not incentivise delivery in areas because they are easier to achieve. Our outputs-based mechanism would protect against both of these risks.

### Summary of supporting evidence *(Examples could include references to sector specific intelligence, innovation projects, ISG engagement, wider consumer research, endorsement from third parties)*

Proposal has been presented by SPEN to Ofgem and DNOs at various Working Groups and bilateral meetings, so evidence of need is understood. Para 3.53 of Ofgem's SSMC references SPEN's initial proposal for an output based metric focused on load risk reduction using primary network load index to track improvements resulting from delivered interventions.

In summary, how this output metric could work:

- DNOs report LI forecasts in BPDts (with/without intervention) underpinned by tRESP Pathways.
- LI Risk Delta Target set using a snapshot of LI forecasts at a future date beyond end ED3.
- LI Risk Delta Target adjusted if an LRE re-opener is triggered (e.g. subsequent RESP iterations).

### Summary of potential benefits

Our proposal:

- **Monitors delivery:** enables Ofgem to hold DNOs to account for proactively providing the right capacity in the right place to meet future customer requirements. This monitors change load related risk in a comparable way to how NARMS monitors change in asset risk, helping to ensure that harder to reinforce locations are not being left behind. Other alternatives, purely based on capacity added, risk incentivising lower cost interventions and risk leaving capacity shortfalls in areas which are more challenging to reinforce
- **Builds on established regulatory tools:**
  - NARMS: approach to calculating risk is well established and CNAIM Risk Point delta targets were set in RIIO-ED1 and ED2.
  - Load Index: well established metric originally developed in DPCR5 as the load equivalent to (what became) CNAIM. This provides a way of aggregating risk (in this case capacity risk) across a network based on current (or forecast) loading.
- **Links to RESP:** targets are set considering the loading risk and associated network interventions required to facilitate the tRESP Pathways.

- **Adapts to changing requirements:** enables DNOs to have to some freedom to adapt to changes in requirements in-period, but holds DNO accountable to reduction in loading risk through the period.

Where the proposal relates to a new or enhanced service or to stretching commitments, explain why the proposal is not already business as usual or incentivised either through the existing RIIO-ED2 framework or under ED3 proposals that we are consulting on

N/A – proposal does not relate to a new or enhanced service or a stretching commitment.

Where the proposal relates to a new or enhanced service, explain why DNOs are best placed to undertake the activity described under the proposal

N/A – proposal does not relate to a new or enhanced service or a stretching commitment.