

Proposal 9 - Business Plan Incentive Early Proposal: DSO Incentive - Stretching targets and associated financial incentive for generator interruptions caused by planned and unplanned outages.

Section	Submission
<i>Licensee Name</i>	UK Power Networks Ltd. including three distribution license holding companies: Eastern Power Networks plc (EPN), London Power Networks plc (LPN), and South Eastern Power Networks plc (SPN).
<i>Proposal Name</i>	Stretching targets and associated financial incentive for generator interruptions caused by planned and unplanned outages.
<i>Type of Proposal (confirm all that apply)</i>	Stretching commitment
<i>Proposal Summary (max 200 words)</i>	<p>We are working to continually grow generation customers' confidence in our network to support growth in the Distributed Energy Resources (DER) sector, an essential component of the Net Zero energy transition and the Government's Clean Power 2030 goal.</p> <p>However, the impact that poor network performance can have on generators connected to our network and the wider system, is not appropriately recognised by the RIIO-ED2 reporting and incentives framework.</p> <p>We have developed two new metrics that measure service performance for DER customers to plug this gap: generation lost (GL) and generator minutes lost (GML). These metrics mirror the customer interruptions (CI) and customer minutes lost (CML) metrics used by DNOs to measure performance due to planned and unplanned interruptions to supply as part of the Interruptions Incentive Scheme (IIS).</p> <p>Transparency, visibility and targeting these metrics within our EPN network has already demonstrated the potential for performance improvements. To embed, sustain and build on these performance improvements, and increase the visibility of these important performance metrics, we are proposing a new incentive targeting generator planned and unplanned outages, with stretching performance targets.</p>
<i>Which ED3 outcomes does the proposal support? (confirm all that apply)</i>	<p>Responsible and sustainable business:</p> <p>Resilient networks</p>
<i>Which Consumer Interest Pillars does the proposal support? (confirm all that apply)</i>	<p>Low cost transition</p> <p>Quality and standards</p> <p>Resilience</p>
<i>Summary of key reason(s)/ driver(s) for the proposal (max 200 words)</i>	<p>The DER sector is already critical to security of supply and its importance is increasing. Over 9GW of DER capacity is connected to our network (which is 10% of total national generation capacity) and this is projected to more than double by 2033. Furthermore, as the significance of this sector increases, so too will the potential for its disruption, as major transmission and distribution network investment will significantly increase planned outages.</p> <p>As well as affecting security of supply, generator interruptions impose balancing, constraint and system optimisation costs on the wider system. Given a significant and growing percentage of our connected generators are renewable, such interruptions also impose environmental costs by increasing reliance on more costly fossil fuel generation, and hence increasing wholesale energy costs and jeopardising the energy transition.</p> <p>Our DER customers also tell us that the direct impact of planned and unplanned outages on them is increasingly consequential as interruptions mean lost profit and increased risk.</p> <p>If distribution networks are not exposed to these direct and wider system costs, sub-optimal outcomes and inefficient whole-system trade-offs are likely, particularly when interruptions to</p>

	<p>demand are incentivised (via the IIS) but interruptions to embedded generation are not fully considered.</p>
<p><i>Summary of supporting evidence (examples could include references to sector specific intelligence, innovation projects, ISG engagement, wider consumer research, endorsement from third parties) (max 200 words)</i></p>	<p>Since the start of RIIO-ED2, we have enhanced dialogue with our DER customers and seen a 60% increase in the number of outage-related issues raised, with the main issue being planned outage duration.</p> <p>The potential financial impact of outages is a common and significant issue raised in our engagement with all types and sizes of DER customers. However, for small-scale sites in particular, a long-term outage can have significant financial impacts.</p> <p>Unplanned, fault-related outages are also an increasing issue for DER customers as they are unable to plan effectively to manage the consequential operational and financial impacts in the event of prolonged, unexpected outages.</p> <p>We have endorsement that this proposal would be meaningful to DER customers, as it could help to minimise the risk of financial impact of both planned and unplanned outages.</p>
<p><i>Summary of potential benefits (max 200 words)</i></p>	<p>As a sector, and as an economy, we are more reliant on embedded generation than ever, especially as we move towards a Net Zero future. It is, therefore, essential that DNO actions do not unnecessarily constrain the operations of embedded generators in order to safeguard security of supply.</p> <p>Interruptions of embedded generators impose direct costs on them, as well as wider systemic and environmental costs. Our proposed incentive will drive performance improvements and hence reduce these costs, generating clear and measurable customer, system, security of supply and environmental benefits.</p> <p>This industry-wide incentive, and external reporting of performance in this area, will drive visibility, transparency and performance improvements across the sector and set a clear performance benchmark.</p> <p>If other DNOs are not in a position to implement the incentive for the start of ED3, they should do so as soon as possible, and we would propose to proceed with a company-specific, bespoke incentive, to demonstrate the validity of the incentive until the wider industry is ready.</p> <p>At a minimum, we believe that there should be a reporting obligation on all DNOs from the start of ED3 to allow the wider DER sector to hold their networks to account for their performance.</p>
<p><i>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 (max 200 words)</i></p>	<p>Ofgem's IIS encourages DNOs to minimise the frequency and duration of electricity supply interruptions to demand customers. This has significantly improved customer reliability through faster fault location and restoration, more proactive asset replacement and automation.</p> <p>However, its very success now highlights the need for complementary incentives as the electricity system becomes more decentralised and complex.</p> <p>The impact that poor network performance has on generators connected to our network with a firm connection, and the wider system, is not currently recognised by the current reporting and incentives framework. As the importance of embedded generation grows, and more data becomes available, there is an increasing need, and opportunity, to recognise the impact of interruptions to generation, ensuring that DNOs are incentivised to make the appropriate trade-offs and avoiding perverse incentives.</p> <p>As we stated in our SSMC response, we believe that the IIS should be amended to reflect the expected increase in planned interruptions from the growth of network investment in ED3 such that the incentive rate for planned interruptions is zero. However, we believe that a positive incentive for planned interruptions for generators is appropriate given the associated wider system and environmental implications, over and above the direct costs to generators themselves.</p>

<p><i>Where the proposal relates to a new or enhanced service, explain why DNOs are best placed to undertake the activity described under the proposal (max 200 words)</i></p>	<p>As this relates to generators connected to the DNO networks, it is only DNOs who this change could apply to.</p>
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Appendix

As a brand new incentive for ED3 our current thinking is that this incentive should be in the order of 15bps – which would put it on a par with our proposed strength of the Streetworks’ incentive for ED3 and be half that for well-established incentives such as the Broad Measure of Customer Service, which we have suggested should be worth 30bps in ED3.

We are continuing to conduct engagement and research with our connected generators to gauge their views on the design of the mechanism, including potential incentive rate strengths – recognising that there are a number of ways these can be set. Such as, with respect to the market value of energy, plus potential wider societal impacts, or they could be a product of a set incentive pot, divided by the distance between the start to earn performance value and the maximum improvement value. The former provides uniform incentive rates across licensees, whereas the latter provides consistent improvement percentage targets across licensees.

Symmetry – as a new incentive for ED3 and noting the there is an existing arrangement for payments to some, but not all generators for certain outages, our current thinking is that this should be a reward only incentive / have an upside skew, given the wider system benefits it would deliver.