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*Our ref*

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*Date*

9 February 2017

Dear Sir,

**Future arrangements for the electricity System Operator: the incentives framework from April 2018**

I am writing to you in response to your consultation on the above.

Western Power Distribution is the Distribution Network Operator (DNO) that serves 7.8 million customers across the South West of England, South Wales and the Midlands.

Our responses to the questions raised in the consultation are attached. If you require any further information or detail around any of the contents of this letter or attachment please feel free to contact me at [nturvey@westernpower.co.uk](mailto:nturvey@westernpower.co.uk).

Yours sincerely

Nigel Turvey  
Network Strategy and Innovation Manager

## **CHAPTER ONE: Background and objectives**

**Question 1:** Do you agree with our objectives for the future SO regulatory framework? Are there any missing?

Yes, efficient trade-offs between operational and investment costs needs to include the potential delivery of solution by DSOs. Hence the addition of working in conjunction with other network operators would be a useful addition.

**Question 2:** How can we best transition to a SO regulatory framework which meets these objectives? When should changes be made?

The timing of future changes proposed appears appropriate.

## **CHAPTER TWO: The current SO regulatory framework**

n/a

## **CHAPTER THREE: Review of the current framework**

**Question 3:** What lessons can be learned from our previous approaches to regulating the SO? What are the key areas where changes might be needed in future?

We have not identified any lessons in addition to those in the consultation paper. In terms of whole system efficiency one area where increased access to flexibility could be facilitated by the SO would be the removal of exclusivity arrangements in a number of its contracts from ancillary services.

As the range of flexibility service providers broadens, it will be important to ensure these participants are accurately reflected in the stakeholder engagement activities.

## **CHAPTER FOUR: Future framework design**

**Question 4:** Do you believe we need to introduce more clarity about what we expect from the SO under its obligations? How should this clarity be provided? To what extent should we set prescriptive or principles-based requirements?

We believe that principles based requirements are likely to achieve the best outcome as it encourages innovation and planning for future changes to market conditions. Being too prescriptive in this nascent phase of transition could restrict some of the avenues available for efficient whole system outcomes.

**Question 5:** Should we place financial incentives on the SO? If so, in which areas? And what form should they take?

Target based incentives provide the strongest incentive with measurable outcomes. Areas such as customer engagement may need to be more discretionary but based on the outcomes from independent customer surveys, from a wider range of stakeholders.

**Question 6:** Should we introduce more non-financial incentives on the SO? What approaches should be taken? Do you support the introduction of a set of KPIs, and if so, what should these KPIs be?

Transparency of actions and provision of information is a key requirement of objective feedback from stakeholders and hence greater use of KPIs should be encouraged. The KPIs need to be developed from stakeholder feedback.

#### **CHAPTER FIVE: Incentive scheme governance**

**Question 7:** How should SO incentives be governed in the future? Would you support a greater role for stakeholders in this process? How can we introduce more transparency around incentives?

The use of a panel to monitor performance and help develop appropriate KPI is likely to be the best way to improve the performance of the SO.