



Making a positive difference
for energy consumers

Electricity Distribution Network
Operators; and Stakeholders

Email: RIIOED2@ofgem.gov.uk

Date: 17 January 2025

Dear Company Secretaries and Stakeholders,

Proposal to modify the RIIO-ED2 Distribution System Operation (“DSO”) Incentive Governance Document and Regulatory Instructions and Guidance (“RIGs”) Annex I DSO

We are proposing to amend the following documents for Electricity Distribution licensees:

- RIIO-ED2 DSO Incentive Governance Document
- RIIO-ED2 RIGs

Please find enclosed a Notice setting out our proposed changes issued pursuant to the relevant licence conditions for the sector.

DSO Incentive Governance Document

The DSO Incentive Governance Document is directed at electricity distribution network companies as well as at their stakeholders. The purpose of the document is to set out the processes and requirements involved in the DSO incentive. It defines the processes and criteria used to assess performance; the reporting requirements; and the methodology we will use to determine an incentive reward or penalty.

RIGs

The RIGs are the principal means by which we collect cost, volume, allowed expenditure,

obtain output delivery information from licensees to monitor performance against their RIIO-2 objectives. This information allows us to hold them to account.

Proposed modifications

We introduced a new DSO incentive as part of the RIIO-ED2 price control for electricity distribution network operators (“DNOs”). It was originally intended that this would be made up of three parts: a stakeholder survey, performance panel assessment and three quantitative metrics. We announced our [RIIO-ED2 DSO incentive - decision on outturn performance metrics | Ofgem](#) in April 2024 to not proceed with the metrics due to concerns with data quality, a lack of historical data and methodological issues. The first year of the DSO incentive subsequently took place with only the survey and performance panel, and the publication of the [Distribution System Operation Incentive annual report - 2023 to 2024 | Ofgem](#) on 26 September 2024.

The first year of operating the DSO incentive has highlighted a number of areas where improvements can be made. We have also continued to work with the DNOs on new reporting requirements that seek to provide more quantified performance metrics. As well as providing increased transparency on DSO performance to stakeholders, we think that this will contribute to the evidence base that could allow financially incentivised performance in these areas in future price controls. We welcome the continued input from DNOs in developing these changes.

We are proposing to make the following substantive modifications to the DSO Incentive Governance Document to implement these proposals.

- **Chapter 3:** new definitions to help with defining the survey process and calculation method for results; introducing process for managing responses which the DNO does not believe reflects a fair assessment of DSO activities in the relevant regulatory year; clarification that only one score per Organisation will be considered for the purposes of the survey results.
- **Chapter 4:** extending the length of the DSO Performance Panel Session from 40 to 60 minutes.
- **Chapter 5:** deleting this chapter to reflect our previous decision not to proceed with the DSO Outturn Performance Metrics as part of the incentive.
- **Appendix 4:** adding three new reporting requirements on flexibility, secondary network visibility and curtailment.
- **Appendix 5:** clarification that the DSO Performance Panel Sessions will be held in-person where possible.

We are proposing to make the following modifications to the RIGs to implement these proposals.

- **Chapter 3:** deleting this chapter to reflect our previous decision not to proceed with the DSO Outturn Performance Metrics as part of the incentive.
- **Chapter 4:** adding three new reporting requirements on flexibility, secondary network visibility and curtailment.

We have also proposed changes in both documents to reflect that the DSO incentive comprises the survey and performance panel assessment only. We have also proposed minor changes to improve the structure and clarity of the documents.

If implemented, these changes should take effect from April 2025.

For further details on changes proposed to the RIIO-ED2 DSO Incentive Governance Document and RIGs, please see the tracked changes within these documents published alongside this notice.

We welcome representations on our proposed modifications on or before 14 February 2025 by email to RIIOED2@ofgem.gov.uk.

Yours faithfully,

David McCrone

Head of Price Control Operations Policy

Duly authorised on behalf of the Authority

To:

Electricity North West Ltd (ENWL)

Northern Powergrid (Northeast) Ltd (NPgN)

Northern Powergrid (Yorkshire) plc (NPgY)

National Grid Electricity Distribution (West Midlands) plc (WMID)

National Grid Electricity Distribution (East Midlands) plc (EMID)

National Grid Electricity Distribution (South Wales) plc (SWALES)

National Grid Electricity Distribution (South West) plc (SWEST)

London Power Networks plc (LPN)

South Eastern Power Networks plc (SPN)

Eastern Power Networks plc (EPN)

SP Distribution plc (SPD)

SP Manweb plc (SPMW)

Scottish Hydro Electric Power Distribution plc (SSEH)

Southern Electric Power Distribution plc (SSES)

(each one a "Licensee", and together, "the Licensees")

Notice under Part F of the Special Licence Condition 4.8 (Distribution System Operation output delivery incentive) ("SpC 4.8") and Part C of the Standard Licence Condition 46 (Regulatory Instructions and Guidance) ("SLC 46") of the Electricity Distribution Licence (the "Licence") granted under section 6(1)(c) of the Electricity Act 1989 (the "Act")

Proposal to modify the RIIO-ED2 Distribution System Operation (DSO) Incentive Governance Document and Regulatory Instructions and Guidance ("RIGs") Annex I DSO

1. The Authority proposes to modify the RIIO-ED2 Distribution System Operation ("DSO") Incentive Governance Document under SpC 4.8 and the Regulatory Instructions and Guidance ("RIGs") Annex I DSO under SLC 46 of the Licence.
2. The DSO Incentive Governance Document sets out the processes and requirements involved in the RIIO-ED2 DSO incentive. It defines the processes and criteria used to assess performance; the reporting requirements; and the methodology the Authority will use to determine an incentive reward or penalty.
3. The RIGs are the primary means by which the Authority directs the Licensees to collect and provide information to the Authority, to enable it to administer the

Special Conditions of the Licence and, where not referenced to in the Licence, the RIIO-ED2 Final Determinations.

4. SpC 4.8 and SLC 46 set out the process for issuing and modifying the DSO Incentive Governance Document and the RIGs, respectively. In accordance with Part F of SpC 4.8 and Part C of SLC 46, the Authority hereby gives notice to the Licensees that it proposes to modify the DSO Incentive Governance Document and the RIGs in the manner indicated in the documents that can be accessed on its website, published alongside this Notice.
5. The reasons for, and effect of, the proposed modifications are to clarify and improve the operation of the DSO Incentive, as well as introducing new reporting requirements for the Licensees.
6. The Authority proposes that these modifications should take effect by 1 April 2025.

Further information

7. The DSO Incentive Governance Document and the RIGs Annex I DSO published alongside this notice show the proposed modifications as incorporated.
8. Copies of this Notice and other documents referred to in it are available on the Ofgem website (www.ofgem.gov.uk).
9. Any representations on the proposed modifications must be made on or before 14 February 2025 by email to RIIOED2@ofgem.gov.uk.
10. Our normal practice is to publish responses on our website. We prefer to receive responses in an electronic form for publication on our website. However, if you do not wish for your response to be made public then you should clearly mark your response as “not for publication”.

David McCrone

Head of Price Control Operations Policy

Duly authorised on behalf of the Authority