



Making a positive difference
for energy consumers

To all electricity distribution
licensees

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Dear licensee,

This letter sets out our guidance with respect to the distribution flexibility reporting requirements introduced by the new electricity distribution licence condition 31E: *Procurement and use of distribution flexibility services*.

Condition 31E (C31E) was implemented in December 2020 and transposes in the GB regulatory framework Article 32 of the Clean Energy for all Europeans Package (*Incentives for the use of flexibility in distribution networks*)¹. C31E sets out under what circumstances distribution licensees can procure flexibility, what principles they should apply during the procurement processes; and the need to take a coordinated approach with other parties (eg other DNOs/IDNOs and the ESO) for the procurement and use of flexibility services. The full text of the licence condition can be found on our website².

The introduction of this new condition is also important in the context of ongoing wider work to decarbonise the energy sector and to deliver the climate change ambitions and the Net Zero greenhouse gas emissions targets³ set by Government. Greater use of flexibility is

¹ See page 35 here: [DIRECTIVE \(EU\) 2019/ 944 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL - of 5 June 2019 - on common rules for the internal market for electricity and amending Directive 2012/ 27/ EU \(europa.eu\)](#)

² See page 7 here: [annex 2 - keeling schedule electricity distribution v2.pdf \(ofgem.gov.uk\)](#)

³In 2019, the UK Government passed legislation enshrining in law the target of Net Zero greenhouse gas emissions by 2050 The Scottish Government also legislated to set a Net Zero target for 2045 and the Welsh

key to achieve these targets in the most sustainable and efficient way. But greater transparency around what and how much flexibility is procured and indeed used by parties, as well as greater coordination across industry participants are both preconditions for enabling the growth of flexibility markets. This licence condition aims at helping realise these two preconditions.

We also note that the System Operator, through licence condition C16⁴, is required to report on the balancing services it intends to procure and has indeed deployed every year. New condition C31 in the electricity distribution licence ensures that also DNOs and IDNOs consider procuring flexibility as their most preferred option (when economically feasible) to run efficient and safe electricity distribution networks and to report on what they procure.

The licence condition broadly covers four themes - Figure 1 below highlights the relevant paragraphs in the licence:

- Expectations regarding the sharing of information, including rules and technical requirements of the flexibility services procurements
- Rules governing the tendering processes
- Expectations with respect to stakeholder engagement
- Principles around the economic viability of the flexibility services tendered for

Figure 1 - Key themes of new condition 31E

Procurement of flex services	Tendering process	Stakeholder engagement	Economic viability
<p>Economic and efficient (31E.1(a)(b))</p> <p>Regard on impact of actions taken on markets and Total System (31E.1(f))</p> <p>Info sharing between DNOs and ESO to meet system needs (31E.1(h))</p> <p>Develop competitive approaches to procuring flex (31E.1(i))</p>	<p>Market-based procedures (31E.1(c))</p> <p>Objective, transparent, cost-reflective and non-discriminatory rules (31E.1(f(i)))</p> <p>Publish technical requirements for participation (31E.1(f(ii)))</p> <p>Establish and maintain transparent & participatory process (31E.1(g(ii)))</p>	<p>Coordination (31E.1(f)(h))</p> <p>Cooperation (31E.1(g(i)))</p> <p>Establish and ensure exchange of all necessary information (31E.1(h))</p>	<p>Cost effective (31E.1(d))</p> <p>Anticipate future electricity requirements (31E.1(i))</p>

Among other requirements, C31E also requires the licensee to report on the flexibility they intend to procure and that has procured. There are three reporting tools the licensee must use for reporting purposes:

Government intends to introduce legislation to amend its existing 2050 target for the achievement of Net Zero emissions.

⁴ See here: [Electricity Transmission Standard Licence Conditions 18 06 2020 \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/electricity-transmission-standard-l licence-conditions-18-06-2020)

1. The *distribution flexibility services procurement statement* – this is a statement the licensee needs to submit for approval to the Authority setting out what flexibility they intend to procure in the next (regulatory) year, as well as describing how the licensee intends to comply with the licence condition. The statement should be submitted to the Authority before 1 of April of each year.
2. The *distribution flexibility services procurement report* – this is a report detailing the flexibility the licensee has tendered for, contracted and dispatched in the past 12 months. The report should be submitted to the Authority within a month from the 1 of April of each year.
3. *Ongoing reporting* in the form of publishing the outcomes of a tender within a month of contractual agreement. Para 31E.17 sets out the information licensees need to publish for each procurement round as part of the ongoing reporting.

The reporting requirements apply to both DNOs and IDNOs. As per the licence condition, should a company plan not to procure flexibility in a given year, there is still a requirement to let the Authority know in writing (see 31E.10). In this case, we expect the company to send us a letter notifying their intention of not procuring flexibility and explaining why this decision has been made.

The first reporting cycle will start this year and we expect to receive the distribution flexibility procurement statements before 1 April 2021. We are conscious that – as these new licence requirements came into place at the end of 2020 - companies may have had limited time to consider and gather new information. For this first report, this year, we are therefore largely asking the companies to collate in one template existing information in a common format. We will further refine the requirements and the process, if necessary, ahead of the next reporting cycle, using feedback from stakeholders and lessons learnt.

The ENA produces a summary report on the flexibility procured in GB, updated every 6 months. For this year, in light of the short timeframe between the licence coming into force and the first report required, we consider that the data submitted by the companies and published on the ENA website will be considered as meeting the terms of the requirements to produce a distribution flexibility procurement report in 2021. We will be in touch with the licensees this year to finalise the format and content of the report on the flexibility procured and dispatched in 2021, to be submitted before 1 May 2022. In the meantime, we expect companies to publish more detailed information on their website to give further visibility of the flexibility procured and to seek feedback from interested stakeholders on what is and could be additionally provided.

The following section sets out in more detail the content of the Distribution flexibility services procurement statement.

Distribution flexibility services procurement statement

The statement has two purposes:

- First, the distribution licence holder should state the types of flexibility services they wish to procure in the following 12 months from 1 April of each year
- Second, they should state how they intend to comply with the parts in the licence condition that require each licensee to set out the rules and technical requirements governing the procurement of flexibility, the actions taken to ensure active participation of prospective flexibility providers, and the actions to be carried out to coordinate with other distribution licence holders and the ESO in the procurement and use of flexibility services.

Figure 2 below sets out the information we would like DNOs and IDNOs to include in their flexibility services procurement statements. Annex A sets out in more detail the skeleton of the flexibility procurement statement.

Figure 2 - Key reporting requirements

Flex services requirements	Tendering process	Stakeholders engagement	Economic viability
Indication of flexibility needs (short term and long-term) Indication of multi-year tenders and needs for upcoming year Need to be addressed by flex services Description of activities to be undertaken/product type If data are available: <ul style="list-style-type: none"> • Size of flexibility requirement at each location • Availability window • Capacity required • Voltage level • Expected/forecast utilisation Dispatch mechanism	Description of how the company ensures the tendering process is objective, transparent and market-based Pricing strategy Contract award arrangements	Procurement timetable and process Description of planned stakeholder engagement/ incl sharing info on pre-qual requirements	How the company determines the level of flexibility services they need to procure Detailed quantitative assessment (linking up with WS1A CEM) Other methodologies for comparing economic value and energy efficiency
Actions to take in coordination with ESO and other DNOs/IDNOs to establish relevant specs for D-flex services and standardised products		Planned engagement with the ESO and other DNOs/IDNOs to establish common rules for the procurement and use of flex	Compliance with C31E.1 a)-f)
			Compliance with C31E.1 g); h)

We are conscious that companies may not have all detailed information regarding a specific tendering process months ahead of the actual procurement, but given this statement refers to activities in the coming 12 months, they should be able to give sufficient indication of

what type of network needs they are facing, where they expect flexibility can help alleviate such needs and what type of flexibility services are therefore required. As a minimum, we expect licensees to signpost in the statement where this information can be found.

We also understand that the timeline for tendering may shift slightly as the flexibility procurement process moves along. We would not consider this a material change and therefore we would not require companies to re-submit a procurement statement to us should this happen, instead we expect companies to notify stakeholders as soon as possible.

Upon receiving a company's flexibility services procurement statement, we will review the document and - unless we have specific questions - we will endeavour to send our approval letter within one month from the receipt of the statement. We encourage companies to submit their statements as early as possible should they wish to receive the Authority's approval before the start of the regulatory year. Once approved, we will also publish the procurement statements on our website.

We look forward to receiving your flexibility services procurement statement before 1 April, which should be sent to flexibility@ofgem.gov.uk. Any questions should also be addressed to this inbox.

Best regards,

Louise Van Rensburg
Head of DSO and Whole System Coordination

ANNEX A

Condition 31E reporting requirements – Distribution flexibility procurement statement

For each section below, each company to set out information and/or signposting where this info can be found.

If available, the company can include information for each location where the DNO is planning to tender for flex services.

If the company has info (especially on the technical requirements) in Excel, this could be sent alongside this report. Ideally this info should be made available to the public.

1. Introduction

Short introduction to the company and to the statement

2. Flexibility services requirements

Indication of flexibility needs (not site-specific), both short-term and long-term to allow potential flex providers to assess scope for future provision (also flagging links with D-FES and then LTDS)

Context on why the company procures flexibility services

Indication of any multi-year tenders, specifying if and what will be tendered in the upcoming regulatory year.

Need for flexibility services/ system needs (for the coming regulatory year):

- Reinforcement deferral
- Post-fault
- Pre-fault

Description of activities to be undertaken/product type:

- Sustain
- Secure
- Dynamic
- Restore
- Other (eg reactive power)

If data is already available (companies should signpost to the most detailed source of information available):

Size of flexibility requirement at each location, eg Peak capacity

Availability window:

- Evenings
- Workday
- Weekend

Availability volume required (MWh)

Voltage level

Expected/forecast utilisation over the year, eg dispatch estimate

Dispatch mechanism, eg what principles/processes are applied for dispatching when there is more than one flex provider (eg sharing dispatch)

3. Tendering process

Description of how the company ensures the tendering process is objective, transparent and market-based

Pricing strategy, eg:

- Fixed price/zone
- Clearing price if there is enough competition for that specific flex product

Contract award arrangements, eg:

- Timeline for assessing bids
- Is a framework agreement available prior to receiving bids?
- Is there a potential to negotiate?

4. Stakeholders engagement

Procurement timetable and process

- When will be/have been published?

Description of planned stakeholder engagement (signposting to relevant information when available)

- Including sharing info on pre-qual requirements
- Any follow-up engagement planned?

Planned engagement with the ESO and other DNOs to establish common rules for the procurement and use of flex

5. Detailed quantitative assessment

How the company determines the level of flexibility services they need to procure

Detailed quantitative assessment (assumption is that the main evaluation model is the one developed by WS1A)

- What methodology will be used to assess the bids?
- What criteria? Are they well understood by stakeholders?
- Will the methodology and the results be made available?

Summary of other methodologies for comparing economic value and energy efficiency