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Louise Van Rensburg  
Ofgem  
10 South Colonnade  
Canary Wharf  
London

Via email

26 March 2021

Dear Louise,

**Subject: ESP Electricity Ltd Distribution Flexibility Services Procurement Statement (Licence condition 31E)**

I am writing on behalf of ESP Electricity Limited ('ESPE'), an Independent Distribution Network Operator ('IDNO'), holder of the Electricity Distribution (ED) Licence and operating across GB.

We support the initiatives and approach taken by Ofgem to include flexibility within the ED Licence conditions, pursuant to EU regulations. We agree that there are benefits that can be realised for all customers resulting from utilising flexibility on our ED networks, and ESPE is committed to using flexibility where appropriate to provide the best value service for our customers.

Following engagements with Ofgem through late 2020 and early 2021, and subsequent to the publication of the letter on guidance for distribution flexibility reporting requirements, we would like to take this opportunity to notify you that we do not intend to procure flexibility for the year 2021 to 2022 and foreseeably for subsequent years as well.

I would like to take the opportunity below to explain the rationale behind our statement, which is attached to this letter.

1. IDNO network sizing

As ESPE typically provides the 'last mile' of the ED network for a new development of a known, finite size, we are able to adequately size the network requirements at the design phase whilst the network is being constructed to serve the planned number of customers and their load. This is agreed by the incumbent DNO and ESPE as part of the terms of connection to the DNO network. As our networks are seldom added to after completion and are adequately sized from the outset, they do not lend themselves to flexibility procurement as the issues that might lead to such a procurement do not arise.

2. Limited connected Distributed Generation

ESPE has very few generation customers. As ESPE's revenues are largely derived from Distribution Use of System (DUoS) charges, which are by definition lower where generation is present, there is currently little incentive to connect generation to an ESPE network. As a result, nearly all of ESP's networks are import dominant with little to no generation, resulting in limited opportunities to realise benefits from flexibility services.

3. Lack of IDNO remuneration and benefit mechanisms

Currently, use of system charging, as outlined in the DCUSA, does not allow benefits or remuneration to flow to IDNOs through Distribution Use of System (DUoS) charges. Put simply, where the incumbent DNO realizes benefits from avoiding reinforcement of the network due to flexibility procured by IDNOs, these benefits (when monetized) cannot currently be retained by the IDNO through DUoS charges.

4. Procurement cost

As ESPE operates a geographically diverse mix of relatively small networks, it does not enjoy the same economies of scale that a DNO does in respect of the cost of operating procurement across a GSP group. A DNO would expect to run a larger scale procurement exercise across its GSP groups, and the resultant benefits from flexibility procurement would justify the cost of undertaking that procurement. With the economies of scale removed, running a procurement exercise for ESPE (and probably most IDNOs) is not economically viable.

5. Nationwide coverage

ESPE, and all IDNOs to a certain extent, operate across many if not all 14 GSP regions. Incumbent DNOs operating in a defined region are able to plan for the procurement of flexibility for their regions based upon applications for connections, known constraint zones, historic fault details etc. This is not possible for ESPE as there is no pre-defined location where ESPE is guaranteed to make a new connection, nor does it need to plan for the development of a network in the same manner as a DNO.

We note that this rationale does not necessarily reflect inefficiencies with the electricity market but are the by-product of market design. Subsequently, we do not expect this to change materially enough in the near future to warrant flexibility being procured by ESPE.

We welcome any questions you have on the topic of flexibility on our network. Should you have any queries, please do not hesitate to contact me on 01372 587500 or at [Regulation@espug.com](mailto:Regulation@espug.com). We look forward to receiving confirmation from you on next steps regarding the need for (or lack thereof) the distribution flexibility services procurement statement and the distribution flexibility services procurement report.

Yours sincerely



Vicki Spiers  
Director