

Distribution Flexibility Services Procurement Statement for SP Distribution PLC and SP Manweb PLC 2020/21

This statement is in a form to be approved by the Gas and Electricity Markets Authority.

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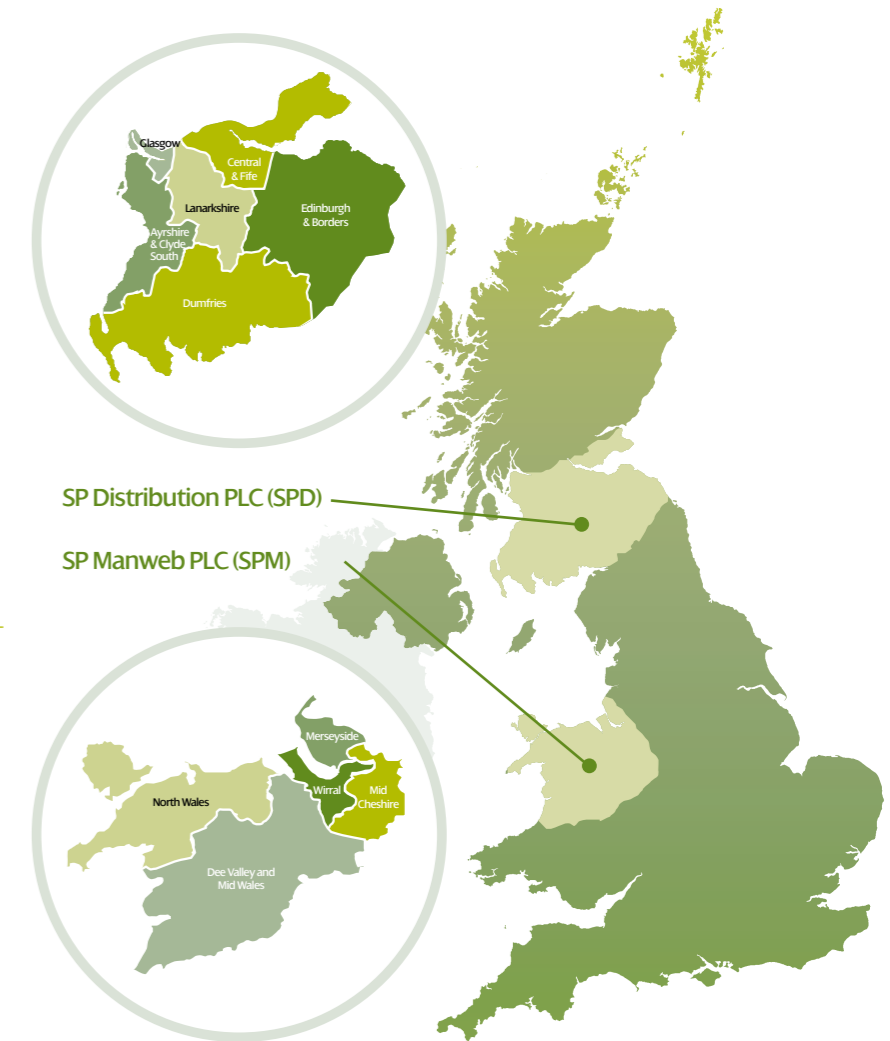
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1. Introduction

We are SP Energy Networks (SPEN). We own and operate the electricity distribution network in Central and Southern Scotland (our SP Distribution network, SPD), and in North Wales, Merseyside, Cheshire and North Shropshire (our SP Manweb network, SPM). It is through these two networks of underground cables, overhead lines and substations that we provide 3.5 million homes, businesses and public services with a safe, economical and reliable supply of electricity.

This document has been prepared by us in accordance with the requirements of our Licence issued under the Electricity Act 1989 (as amended) ('the Act'), specifically Condition 31E. It sets out what Flexibility Services¹ SPEN intends to procure in the next regulatory year, as well as describing how we are complying with the licence condition that requires each licensee to set out the rules and technical requirements governing the procurement of Flexibility Services, 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 Electricity System Operator (ESO) in the procurement and use of Flexibility Services.

Contact Details
If you have any questions about this Statement, please contact us at:
flexibility@spenergynetworks.co.uk

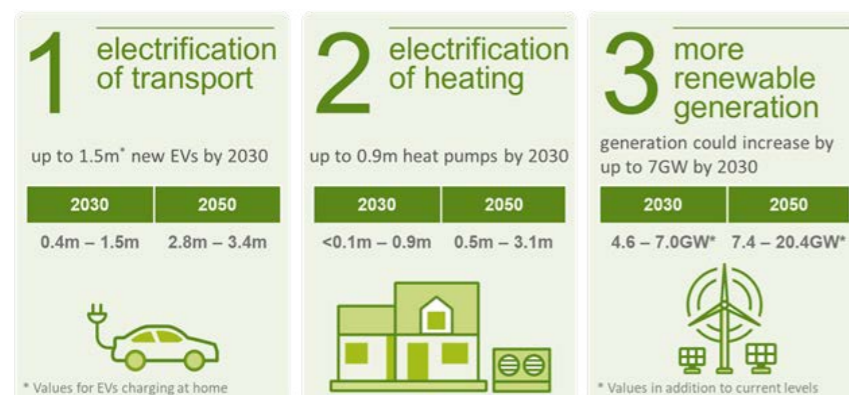


¹ Ability to modify energy generation and/or consumption patterns in reaction to an external signal (such as a change in price, or an instruction).

2. Flexibility Service Requirements

As we transition to net zero, we will see more customers turn to electric vehicles and heat pumps for their transport and heating. We anticipate an increase in renewable generation to power these new low carbon technologies (LCTs) and as customers become prosumers, we expect to experience more dynamic and complex power flows.

To efficiently plan and operate our network to accommodate these changing customer needs, we need to understand what these requirements are. We have done this by developing Distribution Future Energy Scenario (DFES) forecasts, which provide us with a range of demand and generation forecasts depending on customer behaviours and the uptake of LCTs. Understanding the importance of long term forecasts, we include within our DFES, uptake forecasts out to 2050. Given the uncertainties over this period, we create forecasts for four energy scenarios representing differing levels of customer ambition, government/policy support, economic growth, and technology development. All show a significant increase in the volume of customer demand and generation that we will need to serve on our distribution network, with the three main contributors as follows:



For the complete set of DFES forecasts please refer to our main [DFES documents](#).

When considering this unprecedented change, we need to consider all types of network interventions to manage the increased power flows resulting from customer demand and generation and ensure that we continue to deliver a safe, reliable and efficient network.

Flexibility Services are a key type of intervention, which can be used on their own or in combination with other solutions to efficiently provide the necessary capacity on the network, helping to defer or avoid traditional reinforcement.

2.1 Flexibility Tenders

In 2020 we began tendering for all Constraint Management Zones (CMZs) identified with forecast load growth that would require an intervention during the ED2 period (2023 to 2028).

For the results of this initial tender round please refer to the [Flexible Power website](#).

As the Flexibility market is still developing, more customers connected to our network are beginning to understand what they can offer, and new participants are entering the market. We will therefore continue to tender for our requirements until works on the alternative solution commence, taking account of the planning timescales.

In 2021, we will continue to tender for the outstanding requirements plus any additional requirements identified. These additional requirements will include the Flexibility Services identified to support the network during the COP26 event to be held in Glasgow later this year.

For the current tender requirements please refer to the [Flexible Power website](#).

3. Tendering Process

We are committed to procuring Flexibility Services in a fair and transparent manner and have developed processes to ensure all providers are treated equally.

Where it is possible to do so we will procure Flexibility Services via competitive tender.

Where immediate requirements are identified that do not allow for a full competitive tender process to be followed, we will ensure these requirements are kept to the minimum for capacity, service window and contract duration. Results of contracts awarded in this manner will be published in the same way as for competitive tenders on the Flexible Power website.

Downloadable documents detailing our flexibility procurement processes are published on the [Flexible Power website](#). A full list is included in Appendix 1.

3.1 Tenders

3.1.1 Dynamic Purchasing System

SPEN procures Flexibility Services by issuing Invitations to Tender (ITT) via a Dynamic Purchasing System (DPS). A DPS is run using a two-stage process. Firstly, during the initial setup stage all potential providers who meet the set criteria will be admitted to the DPS. The second stage invites all providers on the DPS who meet the requirements criteria to bid for the contracts. Following assessment of the bids contracts are then awarded. Details of the current system are available via the Flexible Power website.

3.1.2 Pricing Strategy

As the Flexibility Services market is still developing, it is our intention to provide, where possible, pricing signals for the individual CMZs we tender for. These will be based on the cost of alternative solutions and will likely differ for each CMZ. For LV CMZs we will aim to provide a single pricing signal. Further details on our pricing strategy, charging structure and application can be found within our Pricing Strategy document.

3.1.3 Pre-qualification Requirements

Via the DPS, we require providers to complete company specific questions and once approved they will be admitted to the DPS. The second pre-qualification stage relates to the assets. We will assess the technical and locational details of the asset to confirm suitability for the individual constraint zones. Once approved, the asset can be submitted as part of the bid. The information requirements are included on the Flexible Power website.

3.1.4 Bid Assessment Criteria

For each bid submitted, we will assess: the overall value of the service offered against the scheme budget; the technical parameters; and competing bids. Guidance is provided on the Flexible Power website.

3.1.5 Dispatch and Settlement

We utilise the Flexible Power portal to dispatch and settle Flexibility Services and once we award a contract, providers are onboarded to the system. Details and guidance, including our Dispatch Principles, are included in our documents listed in Appendix 1.

3.2 Contract Award

As part of the ITT, through the submission of a bid, providers are agreeing to enter into a Flexibility Services Agreement if their bid is accepted. This Agreement utilises the common Flexibility Services Agreement template developed by the ENA Open Networks project, with the latest version included as part of the downloadable ITT documentation published.

3.3 Results

We will publish the full results of our tenders on the Flexible Power website in accordance with Condition 31E.

4. Stakeholder Engagement

Subject to requirements, we will run two competitive tender rounds per year (Spring and Autumn). This timetable will be published on the [Flexible Power website](#).

4.1 2021 Procurement Timetable

The proposed tender timeline is as follows:

| Tender | Timescale | Platform |
|-------------|---|----------------------------|
| Spring 2021 | March 2021 – July 2021 Signing-posting for the Spring Tender commences in March 2021. Requirements and ITT documentation will be issued by 30th April 2021. | Piclo Flex |
| Autumn 2021 | October 2021 – February 2022 Requirements and ITT documentation will be issued by 31st October 2021. | TBC* |

*Once the platform has been confirmed, details can be found on the Flexible Power Portal.

4.2 Engagement

To ensure potential providers and stakeholders are informed on how we identify, procure, dispatch and settle Flexibility Services, we provide several downloadable documents on the Flexible Power website. A full list is included in Appendix 1. In addition, we provide links to the full suite of Invitation to Tender documentation on the Flexible Power website, our own web-site and the tender platform used. A full list is included in Appendix 2.

4.3 Communications Strategy

We consider that we have an important responsibility to inform and educate customers and stakeholders, ensuring customers, community groups, businesses, and government are aware of the changes coming in the energy sector. This will help these parties maximise their engagement, realise benefits, and keep energy costs as cost-effective as possible. We are already delivering this, for example through our [Zero Carbon Communities Hub and Community Energy Futures work](#).

Specifically, in relation to Flexibility tenders, and in conjunction with the engagement provided by the tender platform, we will engage with stakeholders via:

- Specific webinars per tender round
- Easily accessible and downloadable information on Flexible Power website, which provides a single point of contact for five DNOs to providers
- Posts on social media and adverts in trade press
- Conferences and events
- Direct contact to those who register for information.

4.4 Wider Industry Engagement

SPEN are represented on all workstreams within Open Networks, contributing to the development and alignment of procurement and use of Flexibility Services alongside other DNOs and the ESO to improve whole system coordination. Our processes are aligned with the good practices already identified and the new processes implemented. We are part of the Flexible Power collaboration with four other DNOs, providing standardised dispatch and settlement processes for Flexibility Services. This single point of contact helps to provide consistency for Flexibility Providers.

5. Detailed Quantitative Assessment

To procure Flexibility Services, our end to end processes require significant quantitative assessment, including:

5.1. Identifying Flexibility Requirements

Our DFES forecasts show that customer demand and generation needs are significantly increasing. To assess the ability of the existing network to accommodate the forecast increase in customer needs, we undertake a comprehensive programme of network assessments. This intensive modelling forecast the consumption and generation of every one of our 3.5m customers.

Using the DFES scenarios, our model calculated what the resulting power flows would be to identify where, when and by how much they would exceed network limits. For many constraints we modelled every half hour period up to 2030 to ensure our understanding of network constraints was as complete as possible.

This intensive quantitative assessment provides a higher degree of confidence of where and when interventions are required and was used to identify Flexibility requirements.

5.2 Flexibility Evaluation

To deliver the safe, efficient, reliable and decarbonised operation of the distribution network at least cost to customers, we need to assess investment solutions and Flexibility Services on a like for like basis to determine the best value solution to a particular network issue.

As part of our decision-making process, we will use the Common Evaluation methodology to assess the value of Flexibility, both to determine the ceiling price we can pay compared to the alternative solution(s) and to assess the value of services once bids are received for each CMZ.

We include details on this common methodology as part of our downloadable documents held on the Flexible Power website and as listed in Appendix 1.

Consideration of risks and liabilities and how these are managed is also part of the assessment process.

Appendix 1

There are number of downloadable documents, guides and explanations on the various aspect of procuring, dispatching and settling Flexibility Services held on the [Flexible Power website](#):

| Title | Description |
|-------------------------------------|---|
| Procurement Process | Details the process all providers wishing to participate are required to follow. |
| Dynamic Purchasing System | Details of the current system used and how to access. |
| Pricing Strategy | An explanation of our pricing strategy for Flexibility Services |
| Pre-qualification Requirements | Details of requirements providers must meet in order to participate. |
| Bid Assessment Criteria | An overview of how we assess bids received |
| Common Evaluation Methodology | Details of the Common Evaluation Methodology developed by Open Networks. |
| Flexibility Services Agreement | The current version of the Terms and Conditions |
| Guide to API Set-Up & UAT Testing | A guide on how to build and test the Application Programme Interface and how to carry out necessary testing with the User Acceptance Testing environment. |
| Participant Portal Guide | A guide on how use the participant portal including: access, declarations of availability and viewing statements |
| Payment Mechanics | A presentation explaining how the payment mechanisms work |
| Billing Guide & Payment Set Up form | An overview of the monthly billing cycle and the form to send us your payment details. |
| Baselining Methodology | A presentation on the Baselining Methodology that applies |
| Dispatch Principles | An explanation of how we dispatch when availability exceeds requirements. |
| Glossary | A helpful guide to the terms, acronyms and abbreviations used, as provided by the ENA. |

Appendix 2

Specific information relating to our individual tender rounds, both historic and current, are held on the [Flexible Power website](#):

| Current Tender | Description |
|----------------------------|--|
| Procurement Timetable 2021 | Timetable for the planned procurement tender for Flexibility Services and key dates. |
| Requirements | Details of the requirements tendered for. |
| ITT documentation | Current Invitation to Tender (ITT) documents including: Terms & Conditions, applicable policies and any tender specific information. |
| Archived Tenders | Description |
| 2020 Tender Results | Results of tenders issued in 2020 |
| 2019 Tender Results | Results of tenders issued in 2019 |