

# Guidance

## Electricity Distribution Licence Condition 31E: Procurement and use of Distribution Flexibility Services reporting requirements

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This Guidance sets out the reporting requirements under Electricity Distribution Standard Licence Condition 31E: Procurement and use of Distribution Flexibility Services.

This Guidance is subordinate to the Licence Condition. In the event of any inconsistency between the Licence Condition and this document, the Licence Condition will take precedence.

This Guidance may be amended from time to time in recognition of improvements to data availability and reporting standards placed upon licensees through other mechanisms. Any updates, excepting minor corrections such as typographical errors, will be informed by stakeholder consultation.

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## Contents

<b>1. Introduction</b>	<b>4</b>
Purpose of this document	5
Reporting requirements	5
Distribution Flexibility Services Procurement Statement	5
Distribution Flexibility Services Procurement Report	6
Ongoing reporting	6
Submission and publication	7
<b>2. The Distribution Flexibility Services Procurement and Use Statement</b>	<b>8</b>
Section 1. Introduction	8
Section 2. Flexibility services requirements	8
Section 3. Tendering process	9
Section 4. Stakeholder engagement	10
Section 5. Detailed quantitative assessment	11
Appendix: Supplementary information	11
<b>3. The Distribution Flexibility Services Procurement and Use Report</b>	<b>12</b>
Procurement Report: written report	12
Section 1. Introduction	12
Section 2. Flexibility Procurement and Use Summary	12
Section 3. Stakeholder engagement	13
Section 4. Economic viability	14
Section 5. Carbon reporting	15
Appendix: Supplementary information	16
Procurement Report: Supporting Data	16
Worksheet 1. Procurement and Use Summary	16
Worksheet 2. Tender Rounds Summary	17
Worksheet 3. Procurement	17
Worksheet 4. Dispatch	18
<b>4. Ongoing reporting</b>	<b>19</b>
<b>5. Future reporting and next steps</b>	<b>20</b>

## 1. Introduction

1.1. The Clean Energy for all Europeans Package (CEP) lays out within Article 32(1) of the Electricity Directive (EU 2019/944)<sup>1</sup> that Distribution System Operators (DSO) must procure flexibility services through transparent, non-discriminatory, and market-based procedures.

1.2. The Electricity Distribution Standard Licence Condition 31E: Procurement and use of Distribution Flexibility Services<sup>2</sup> (C31E), was implemented in December 2020 and transposes Article 32 of the CEP (Incentives for the use of flexibility in distribution networks) into the GB regulatory framework.

1.3. C31E sets out the conditions under which 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, such as other distribution licensees or the Electricity System Operator (ESO) for the procurement and use of flexibility services.

1.4. This 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 targets<sup>3</sup> set by Government.

1.5. Greater use of flexibility is key to achieve these targets in the most sustainable and efficient way. C31E is intended to achieve greater transparency around the procurement and utilisation of distribution flexibility services, as well as encouraging greater coordination across industry participants, as flexibility markets further mature.

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<sup>1</sup> 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 \(europa.eu\)](#)

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

<sup>3</sup> In 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 Government intends to introduce legislation to amend its existing 2050 target for the achievement of Net Zero emissions.

## Purpose of this document

1.6. The purpose of this Guidance is to support licensees in their interpretation of the reporting requirements under C31E, as set out in paragraphs 31E.8 to 31E.17 of the Condition, and to promote consistency across submissions in the format and detail of information provided.

1.7. This document addresses the three distinct reporting requirements under C31E the following chapters:

- i) The Distribution Flexibility Services Procurement Statement (“the Procurement Statement”)
- ii) The Distribution Flexibility Services Procurement Report (“the Procurement Report”)
- iii) Ongoing Reporting

## Reporting requirements

1.8. Through the reporting requirements set out under C31E, licensees must demonstrate compliance with the Conditions ongoing obligations which broadly covers four themes:

- a) expectations regarding the sharing of information, including rules and technical requirements of the flexibility services to be procured
- b) rules governing the tendering processes
- c) expectations with respect to stakeholder engagement
- d) principles around the economic viability of the flexibility services tendered for.

1.9. C31E requires the licensee to report annually on the flexibility they intend to procure (via a Distribution Flexibility Services Procurement Statement or ‘Procurement Statement’) and that which has been procured (via a Distribution Flexibility Services Procurement Report or ‘Procurement Report’).

1.10. These annual reports are supplemented by ongoing reporting throughout the year (as required under 31E.17). Each of the reporting obligations are summarised below and their required contents and format detailed in the following chapters.

### **Distribution Flexibility Services Procurement Statement**

1.11. In accordance with paragraph 31E.8 of the Licence, this is a statement the licensee needs to submit to the Authority for approval, setting out what flexibility services it reasonably expects to procure in the next (regulatory) year and the mechanisms by which it expects to do so. In addition, the Procurement Statement must include a statement demonstrating how the licensee intends to comply with its obligations under C31E.1. The statement should be submitted to the Authority before 1 of April of each year.

*Changes to stated procurement activity*

1.12. In line with paragraph 31E.12 of the Licence, where during the term of any Procurement Statement, the licensee's flexibility procurement intentions change from the information provided within its Procurement Statement, the licensee must review the statement and consider whether any revision to the statement is necessary to ensure it remains an accurate reflection of the licensee's intentions, and, if so, promptly seek to establish a revised statement to be submitted to the Authority for approval.

1.13. The review timelines set out in paragraph 1.21 of this Guidance will apply for any resubmissions received.

*Reporting the intention not to procure flexibility*

1.14. The reporting requirements apply to all Electricity Distribution licensees, including Independent DNOs.

1.15. In line with paragraph 31E.10 of the Licence, where the licensee expects that it will not procure any Distribution Flexibility Services in the 12-month period following the 1 April (the Annual Submission Date), the licensee must write to the Authority before this date notifying it of this position.

**Distribution Flexibility Services Procurement Report**

1.16. This is a report detailing the flexibility the licensee has tendered for, contracted, and dispatched in the preceding 12 months. The report should be submitted to the Authority within a month following 1 April of each year.

**Ongoing reporting**

1.17. Paragraph 31E.17 of the Licence sets out the ongoing reporting requirements such that the outcomes of concluded procurement processes are to be published within a month of contractual agreement. Section 4 of this Guidance sets out the information that licensees must publish in order to meet this requirement.

## **Submission and publication**

1.18. Completed Procurement Statements and Reports should be submitted to [Flexibility@ofgem.gov.uk](mailto:Flexibility@ofgem.gov.uk). Ofgem will acknowledge receipt of the submission within two working days following the date of submission.

1.19. Procurement Statements require the approval of the Authority, as set out in paragraph 31E.8. Licensees are therefore encouraged to submit, for approval, their Procurement Statements as early as possible, should they wish to receive the Authority's approval before the start of the regulatory year (1 April).

1.20. If no clarifications or alterations are required, Ofgem will review and approve Procurement Statements within 20 working days following the date of submission.

1.21. Licensees must publish on their websites a copy of their approved Procurement Statement and Procurement Report, alongside all ongoing procurement tender results.

1.22. In addition, Ofgem will publish all approved Procurement Statements and Procurement Reports received from licensees, redacted of any confidential information such as described in paragraph 31E.15 of the Licence Condition.

1.23. The licensee should ensure that the Procurement Statements and Reports and associated data publications are consistent with, and can be easily cross-referenced against, other network data publications, including but not limited to the Long Term Development Statement (LTDS) and the Network Development Plans (NDPs). Where relevant, this should include:

- a) Consistent information on the state of the network and the detailed quantitative assessment showing the need for flexibility.
- b) Consistent nomenclature, metadata and unique identifiers across the Procurement Statements and Reports and wider network publications.

## 2. The Distribution Flexibility Services Procurement Statement

2.1. This section pertains to requirements set out in paragraphs 31E.8 to 31E.13 of the Licence Condition.

2.2. The licensee must, before 1 April each year (otherwise known as the Annual Submission Date), submit to the Authority for approval a Distribution Flexibility Services Procurement Statement.

2.3. Licensees should structure their Procurement Statements to include each of the sections detailed below. The Procurement Statement should be submitted to the Authority as a PDF document, and should also include a table of contents.

### **Section 1. Introduction**

2.4. A short introduction to the licensee company should be given at the start of the Procurement Statement, in addition to setting out the purpose and key highlights of the document.

### **Section 2. Flexibility services requirements**

2.5. Licensees should provide an indication of their flexibility needs, both short- and long-term to allow potential flex providers to assess scope for future provision.

2.6. An indication of how the requirements fit into the licensee's Long Term Development Statement, and in turn their Network Development Plan, should be clearly set out.

2.7. Context for why the licensee intends to procure flexibility services should be provided.

2.8. A clear indication of any multi-year tenders should be made, specifying if and what will be tendered in the upcoming regulatory year. Descriptions can be adjusted for site requirements.

2.9. Details of the need for flexibility services and system needs for the coming regulatory year should be provided where known, including but not limited to requirements under the following headings:



- a) reinforcement
- b) deferral
- c) pre-fault
- d) post-fault
- e) maintenance
- f) unplanned interruptions

2.10. Details of forecast utilisation over the regulatory year, e.g., dispatch estimate. This can be merged with Section 2.9 where more location specific or arrangement details can be provided.

2.11. A description of activities to be undertaken under each product type should be provided:

- a) Sustain
- b) Secure
- c) Dynamic
- d) Restore
- e) Other (e.g., Reactive Power)

2.12. Where available, details should be provided as to the size of the flexibility requirements at each location, including:

- a) peak capacity required (MW or MVar)
- b) availability volumes required (MWh)
- c) voltage level
- d) forecast utilisation over the year
- e) required availability windows

2.13. A description of the dispatch mechanism that will be used should be provided, detailing the principles and processes applied for dispatch, for example, when there is more than one flexibility service provider.

### **Section 3. Tendering process**

2.14. The licensee should set out how tendering processes are objective, transparent, and market-based, including a clear description of its bid evaluation methodology.

2.15. Details of the licensee's pricing strategy should be provided, and can be broken down in the following way:

- a) details of any guide prices provided, and the products or zones to which they apply
- b) details of any fixed price and the products or zone to which they apply

2.16. Details of the licensee's contract award arrangements should be provided, including:

- a) a timeline of the bidding process (registration of interest; pre-qualification close; bidding start / end dates)
- b) the degree of flexibility for potential flexibility service providers to set out alternative means by which they may meet the specified requirements
- c) confirmation as to if and how potential flexibility service providers, or a consortium of providers, can propose multiple solutions in their bid(s).

#### **Section 4. Stakeholder engagement**

2.17. Licensees should provide a timetable detailing their procurement schedules for the year, including when tender information and procurement outcomes will be made publicly available. The timetable should also outline opportunities to provide feedback to the licensee.

2.18. A clear description of planned stakeholder engagement should be provided, including:

- a) a description of the date / time a flexibility service is required and how this is conveyed to market participants
- b) details on how stakeholder engagement is used over the various stages of the procurement process
- c) details on how information is shared on the pre-qualification requirements
- d) details on any planned or scheduled follow-up stakeholder engagement

2.19. Licensees should provide clear signposting of further relevant information, including:

- a) links to pages where flexibility procurement activities are announced
- b) links to publications of which a summary has been provided

2.20. Licensees should detail planned engagement with the ESO and other DNOs and IDNOs to establish common rules for the procurement and use of flexibility services.

## **Section 5. Detailed quantitative assessment**

2.21. Details of the financial viability of the procurement of flexibility services should include:

- a) how the licensee determines the level of flexibility services they need to procure.
- b) details of the comprehensive quantitative assessment, including tools that will be used to determine that Distribution Flexibility Services are the most economic and efficient solution
- c) the methodologies that will be used in the assessment of bids
- d) details of what the evaluation criteria are, and a demonstration on whether the criterion are well understood by stakeholders
- e) a summary of any other methodologies used for comparing economic value and energy efficiency of bids to traditional solutions (such as network reinforcement) for which the licensee must justify their rationale for developing the base case for a particular site, the choice and use of assets, as well as the value associated with their business case

### **Appendix: Supplementary information**

2.22. Licensees can supplement any information that is not explicitly required to be included in the Procurement Statement, for example, by signposting to other available information that is available on licensees' or partner websites.

2.23. Any hyperlinks provided must be accompanied by a clear description of the supplementary information, including page or section references where relevant.

### 3. The Distribution Flexibility Services Procurement Report

3.1. This section pertains to requirements set out in paragraph 31E.14 of the Licence Condition.

3.2. The licensee must submit to the Authority for approval a Distribution Flexibility Services Procurement Report before 1 May following the regulatory year of reporting. For avoidance of doubt, this would mean that a Procurement Report pertaining to 1 April 2021 to March 31, 2022 would be due before 1 May 2022.

3.3. The Report should be comprised of two parts: a written report in PDF format, and the completed Supporting Data Template.

3.4. Licensees should structure their written report to include each of the headings detailed in paragraphs 3.8 to 3.22 of this Guidance. The written report should be submitted to the Authority as a PDF document, and should include a table of contents.

3.5. Throughout the Report it is expected that the licensee reflects on the Procurement Statement for the corresponding year, comparing forecast with actual procurement activity, as well as noting any changes to planned activities or stated methodologies and the reasons for these changes.

3.6. In addition to the written report, licensees must populate the Supporting Data template with services tendered for, contracted, and dispatched over the reporting period. The data template has been published alongside this Guidance, and directions for its completion set out in paragraphs 3.23 to 3.32.

#### **Procurement Report: written report**

##### **Section 1. Introduction**

3.7. A short introduction should be included setting out the purpose and key highlights of the Report.

##### **Section 2. Flexibility Procurement and Use Summary**

3.8. Licensees should provide a summary of the following flexibility services procurement information within the Procurement Report, to complement the supporting data provided in the accompanying data template:

- a) the flexibility services contracted for use in the reporting year, compared with the flexibility services dispatched in the reporting year, in MW or MVA<sub>r</sub>. This should also include any services tendered for in previous years
- b) if flexibility needs were not met, i.e., if the capacity tendered for could not be contracted, this should be expressed in MW or MVA<sub>r</sub>, along with a description of why the licensee considers these needs were not met
- c) the projected flexibility services procured, compared with actual services procured, by product type. Projected figures should be taken from the corresponding year's Procurement Statement, i.e., the Statement submitted by April 2021, and Report submitted by May 2022
- d) a summary, organised first by product, and further presented by location, of the flexibility services that were tendered for in the preceding twelve months.
- e) a summary of any conflict mitigation that had taken place as a result of coordination with the ESO

### **Section 3. Stakeholder engagement**

3.9. A clear description of the licensee's stakeholder engagement should be provided, including:

- a) a description of the date / time a flexibility service was required and how this was conveyed to market participants
- b) details on how information was provided to stakeholders (such as flexibility service providers and ESO) over the various stages of the procurement process, and the format in which this information was published
- c) details on the information shared on the pre-qualification requirements
- d) details on the planned follow-up stakeholder engagement that occurred over the preceding 12 months

3.10. Licensees should provide clear signposting of the relevant information, including:

- a) the links to register for more information.
- b) the links for publicly available publications and access to tender information.

3.11. Licensees should detail coordination engagement undertaken with the ESO and other DNOs and IDNOs to establish common rules for the procurement and use of flexibility services over the preceding 12 months and the resulting actions from this engagement.

3.12. Licensees should detail engagement undertaken with stakeholders and any feedback received over the preceding 12 months and the resulting actions

#### **Section 4. Economic viability**

3.13. Details of the economic viability of the procurement of flexibility services should include:

- a) a clear description of how the company determined the level of flexibility services they procured
- b) results from the comprehensive cost benefit analyses, using evaluation tools to satisfy procurement and dispatch of Distribution Flexibility Services in the most economic and efficient solution
- c) details of what methodologies were used for the assessment of bids
- d) details of what the evaluation criteria were, and a demonstration on whether the criterion were well understood by stakeholders, through feedback provided
- e) details of the circumstances in which available flexibility services were not dispatched, expressed as a percentage of total network management actions where flexibility services are available
- f) details on the publicly available information on the methodology used and results of bids, with clear signposting of this information
- g) a summary of any other methodologies that were used for comparing economic value and energy efficiency of bids to traditional solutions (such as network reinforcement) where the licensee can summarise their rationale for developing the base case for a particular site, the choice and use of assets, as well as the value associated with their business case
- h) demonstrate throughout the Procurement Report that all costs incurred were as efficient and economical as possible, where licensees were doing everything it reasonably can to ensure value for money

3.14. Details of the market assessments undertaken for the procurement of flexibility services should include:

- a) a clear demonstration of how the market was reviewed, in which the requirement for a service falls under
- b) a demonstration of the considerations made from any actions taken during procurement of Distribution Flexibility Services, by the licensee, on market participants' ability to effectively participate in retail, wholesale, and balancing markets
- c) a clear demonstration of the considerations made from any actions taken during procurement of Distribution Flexibility Services, by the licensee, on the Total System

## **Section 5. Carbon reporting**

3.15. Carbon reporting in the Procurement Report is at present intended, to begin addressing action 3.6 of the Smart Systems and Flexibility Plan 2021<sup>4</sup>, which calls for the networks and system operator to develop consistent methodologies for carbon reporting and monitoring of their actions and markets ahead of the RIIO-ED2 price control (April 2023).

3.16. As a first step in the development of this work, the focus lies not in the carbon figures reported, but the methodology employed and rationale behind it, which should serve to inform the development of consistent methodologies across Electricity Distribution licensees through collaboration through Workstream 1A of the Open Networks Project<sup>5</sup>.

3.17. It is expected that the carbon figures received in the 2022 reporting year will not constitute a consistent representation of carbon impacts across Electricity Distribution licensees and the ESO, and will await the outputs of the Open Networks Project developments.

3.18. Licensees should include in this section of the Report:

- a) details of the quantitative carbon assessment of in-year flexibility activity undertaken.
- b) details of the methodologies employed (or that could be employed where procurement activity is limited) and the rationale followed for this assessment.

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<sup>4</sup> [Policy paper overview: Transitioning to a net zero energy system: smart systems and flexibility plan 2021 - GOV.UK \(www.gov.uk\)](#)

<sup>5</sup> [Flexibility services – Energy Networks Association \(ENA\)](#)

- c) details on the planned engagements with the ESO, other DNOs, IDNOs, and other external stakeholder on collaboration to develop a standardised and robust approach to carbon reporting.

### **Appendix: Supplementary information**

3.19. Licensees can supplement any information that is not explicitly required to be included in the Procurement Report, for example, by signposting to other available information that is available on licensees' or partner websites.

3.20. Any hyperlinks provided must be accompanied by a clear description of the supplementary information, including page or section references where relevant.

3.21. Any further narrative that the licensee feels necessary for the Supporting Data template should be included in this section.

### **Procurement Report: Supporting Data**

3.22. Licensees must use the Supporting Data template to provide information under the headings as set out below.

3.23. Where data cannot be provided or is not applicable, cells should be left blank.

### **Worksheet 1. Procurement and Use Summary**

3.24. This worksheet should summarise by product the flexibility procurement and use primary data provided in Worksheet 3. Procurement, and Worksheet 4. Dispatch.

3.25. For this Worksheet alone, licensees reporting together under their group name should provide separate Procurement and Use Summaries, which can be clearly labelled worksheets under the same submission.

#### *Tendered*

3.26. This cell should be completed only for the year of reporting, and input data carried across for subsequent reporting years. It is expected that across Reports, retained cell inputs in corresponding years will match.



### *Contracted*

3.27. These cells should be completed across all years in which contracts are currently in place, and these cells alone should include details of procurement activity undertaken in previous years, e.g., where multi-year contracts continue to be active in the year of reporting and beyond.

### *Dispatched*

3.28. These cells should be completed for the year of reporting. Dispatch data should be retained in subsequent Report submissions in order to develop a comprehensive picture of procurement activity. It is expected that across Reports, retained cell inputs in corresponding years will match.

## **Worksheet 2. Tender Rounds Summary**

3.29. This worksheet should summarise by tender round the primary data provided under the Worksheet 3. Procurement, for the reporting year. This summary is required under the following column headings:

- a) Tender reference
- b) Licence area (where applicable)
- c) Product
- d) Number of Participants
- e) Tendered (MW/MVAr)
- f) Contracted (MW/MVAr)
- g) Unmet (MW/MVAr)

## **Worksheet 3. Procurement**

3.30. This worksheet should provide individual tender outcomes by bidding party for the reporting year, under the following column headings:

- a) Tender reference
- b) Product
- c) Licence area
- d) Service location (Grid Supply Point)
- e) Service Provider

- f) Main technology
- g) Secondary technology
- h) Bid outcome
- i) Capacity
- j) Connection voltage
- k) Contract start
- l) Contract end
- m) Service window from (where applicable)
- n) Service window to (where applicable)
- o) Service days
- p) Original availability fee (where applicable)
- q) Original utilisation fee (where applicable)
- r) Agreed availability fee (where applicable)
- s) Agreed utilisation price
- t) Notes

#### **Worksheet 4. Dispatch**

3.31. This worksheet should provide individual flexibility dispatch instructions for the reporting year, under the following column headings:

- a) Incident reference
- b) Product
- c) Licence area
- d) Incident location
- e) Accepting party
- f) Main technology
- g) Secondary technology
- h) Reasons for dispatch
- i) Requirement (MW/MVAr)
- j) Incident voltage (kV)
- k) Price (£)
- l) Accept time (h)
- m) Notice time (h)
- n) Expected duration (h)
- o) Total duration (h)

## 4. Ongoing reporting

4.1. Paragraph 31E.16 and 31E.17 sets out the information licensees need to publish for each procurement round as part of ongoing reporting. The following information must be set out by licensees post contractual agreement:

- a) details of the counterparty to the contracts
- b) details of the technology type procured
- c) details of the capacity and volume procured
- d) details of the length of the contractual agreement
- e) details of the payment structure of the contract
- f) details of the agreed prices for the provision of services

4.2. Licensees must email Ofgem ([Flexibility@ofgem.gov.uk](mailto:Flexibility@ofgem.gov.uk)) to notify of the conclusion of a tender round, including links to where the above tender information can be found.

4.3. Licensees must, unless the Authority otherwise consents, maintain for a period of at least six years:

- a) published details of the flexibility services that have been procured and offered
- b) published details of all contracts for flexibility services which licensees have entered into

## 5. Future reporting and next steps

5.1. This Guidance and the accompanying Supporting Data template have been developed with the intention of promoting consistency and thoroughness of reporting across licensees under C31E.

5.2. As C31E is still in the early years of implementation, we expect that this Guidance will be subject to change as a result of lessons learned across subsequent reporting years.

5.3. Any changes to this Guidance, excepting minor corrections such as typographical errors, will be subject to no less than 20 working days of stakeholder consultation.