



Making a positive difference
for energy consumers

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Date: 06 July 2022

Dear Scott Mathieson,

Approval letter for SP Energy Networks' Distribution Flexibility Services Procurement Statement as part of the requirements of Electricity Distribution Licence Condition 31E.

Thank you for submitting your letters and the Distribution Flexibility Services Procurement Statement for review and approval. With this letter, the Authority¹ acknowledges that your Company does not intend to procure Distribution Flexibility Services ('flexibility services') from 1 April 2022 to 31 March 2023.

In accordance with SLC 31E, Distribution Network Operators (DNOs) and Independent Distribution Network Operators (IDNOs) are required to report on the flexibility services they intend to procure and that they have procured. The licence condition ensures that DNOs and IDNOs consider procuring flexibility services, when it is economic and efficient to do so, to run efficient and safe electricity distribution networks. Where licensees are not procuring any flexibility services within this reporting cycle, an obligation remains on licensees to consider flexibility services (where economically feasible) for future reporting cycles.

In our Guidance published on 14 February 2022, we set out the key reporting requirements for this regulatory year (01 April 2022 – 31 March 2023) that we expect licensees to report on to meet the obligations set out within SLC 31E. We also said that, should a licensee not intend to procure or use flexibility services in the following regulatory year, the licensee should notify this decision to the Authority in writing.

¹ The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms "Ofgem" and "the Authority," "we" and "us" are used interchangeably in this letter.

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We have assessed your company's Distribution Flexibility Services Procurement Statement against these requirements, and we confirm it satisfies these criteria and that more generally it complies with the obligations under condition 31E.

We observe SPEN's flexibility procurement cycles prior to 2022-23, and note the poor turn out of follow-up procurement activities in Autumn 2021. Whilst it is disappointing to see the pause in procurement activities in 2022-23, we acknowledge that flexibility service providers have not come forwards in response to SPEN's follow-up procurement activity. We agree with SPEN that detailed analysis is required to better understand the inconsistencies in response to flexibility procurement processes, and expect to see SPEN remedy any systemic and process issues in the procurement of flexibility services. We expect to see renewed market engagement and ambition in future flexibility procurement cycles.

For future reporting cycles, please provide headline figures summarising at a high level the volume of flexibility services that are being procured within that regulatory year, within your executive summaries, ensuring your Distribution Flexibility Services Procurement Statement sets out the following detailed information:

- (a) the types of flexibility services licensees reasonably expect they may be interested in procuring in the following 12 months from 01 April of this regulatory year (2022/23);
- (b) the rules and technical requirements governing the procurement and use of flexibility services;
- (c) summarises how the company ensures that the tendering process for flexibility services is objective, transparent, and market-based;
- (d) the actions taken to ensure effective participation of flexibility providers (including prospective providers) and stakeholders, including planned stakeholder engagement, and procurement timetables and processes;
- (e) the actions to be carried out to coordinate with other Electricity Distribution Licence holders and the Electricity System Operator in the procurement and use of flexibility services; and
- (f) summarises how the company determines the level of flexibility services they need to procure, detailed quantitative assessments, and other methodologies for comparing economic value and energy efficiency.

Where your Distribution Flexibility Services Procurement Statement contains any confidential or private information, please provide to us a redacted version by 08 May 2022, which will

be published on our website. Companies must also publish their statement on their website as stated under Condition 31E.15.

In addition, licensees are required to notify any changes to the information contained within the Distribution Flexibility Services Procurement Statement to the Authority in accordance with C31E.12.

Additionally, we have received your backwards-looking Distribution Flexibility Services Procurement Report (31E.14) which we are reviewing, and should we have any further queries or comments, we will get in touch accordingly. In the meantime, we expect licensees to continue to engage and seek feedback from interested stakeholders (such as non-network companies, and Flexibility Service Providers) on what is and could be additionally provided within future reporting. Should you have any questions, please contact us through our Flexibility inbox (flexibility@ofgem.gov.uk).

Yours sincerely,

Alex Walmsley

Head of Distribution Flexibility Markets and Enablers

For and on behalf of the Authority