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Your ref

Our Ref

Date

31st March 2022

Contact / Extension

Gerry Boyd
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Dear colleague

Condition 31E.10: Notification relating to Procurement of Flexibility Services

This letter is from SP Energy Networks (SPEN). SPEN owns and operates the electricity distribution networks in the Central Belt and South of Scotland (SP Distribution plc) which serves two million customers, and North Wales, Merseyside, Cheshire and North Shropshire (SP Manweb plc) which serves one and a half million customers.

Flexibility Track Record

We began tendering in 2019 for flexibility services for requirements identified for the latter years of the ED1 price control period. In preparation for our ED2 Business Plan submission, using our advanced modelling techniques, applying granular DFES scenarios to power flow analysis, we identified all Constraint Management Zones (CMZs) with forecast load growth during the ED2 period. In 2020 we began tendering for all CMZs where flexibility services are considered a suitable solution and issued two tenders, one in Autumn 2020 and then retendered in Spring 2021 seeking a total of 1.4GW of flexibility services at 1554 locations across our two licence areas and covering all voltage levels.

Tenders	Spring 2019	Spring 2019	Autumn 2020	Spring 2021
No. of Sites	3	10	1138	1554
Price Control Period	ED1	ED1	ED2	ED2
MWs tendered	116	250	960	1420
MWs awarded	0	53.3	139.6	555

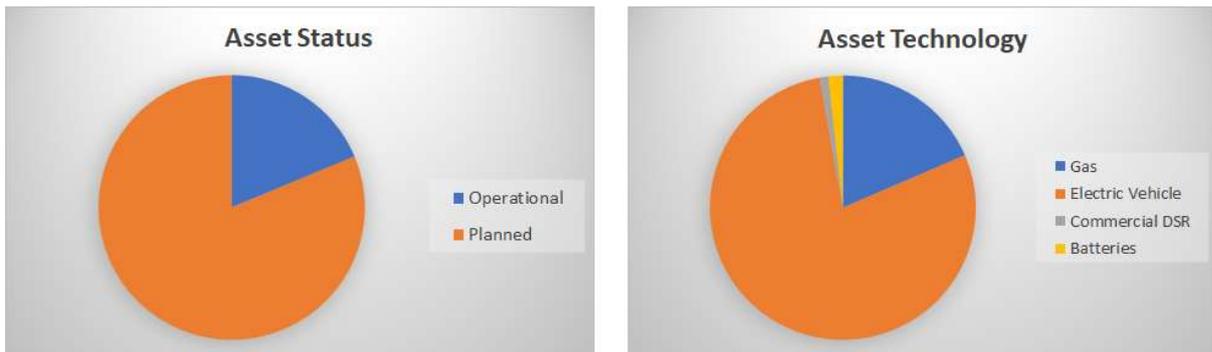
We received a very encouraging response to our tenders and accepted bids for over 700MW. The contractual process remains underway as we look to secure this bid capacity in individual Flexibility Services Agreements.

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To further facilitate this emerging market, we encouraged participation from asset owners with operational assets and also from those offering planned assets currently in development or to be recruited following contract award. To date, the majority of assets offered are from aggregators offering demand side response from planned electric vehicles assets.



The results from these tenders have been used to inform our ED2 Business Plan, ensuring a robust submission demonstrating comprehensive consideration of all solutions to manage the unprecedented network load growth forecast as a result of the electrification of transport and heat as we transition to net zero.

However, the risk of contracting with largely planned assets must also be fully considered, and steps taken to mitigate the potential impact of services not being delivered. Supporting our long-term tenders with shorter term, closer to real time procurement is one such measure.

Ensuring a Holistic, Flexibility Focused DSO Transition

It is well understood that the energy landscape is changing fast as the way our customers generate, use and interact with energy evolves. This means that our role – how we plan, design and operate the network for our customer must evolve with it. Our Distribution System Operation (DSO) Strategy¹ details how we will respond to these challenges, so that we can enable decarbonisation targets whilst continuing to deliver exceptional service to our customers and communities.

Within our ED2 business plan we made the commitment to create a new discrete DSO functional model and directorate within SPEN by the start of RIIO-ED2 and we are now concentrating on the practical changes needed to ensure this happens.

Against the backdrop of our successful tenders, we will now dedicate time and resources to put in place the structure, policies and procedures required to maximum the benefits of flexibility and enable close to real time procurement and operation. Our next tender will therefore be issued in April 2023.

¹ [Annex 4A.3 - DSO Strategy .pdf \(spenergynetworks.co.uk\)](https://www.spenergynetworks.co.uk/annex-4a-3-dso-strategy.pdf)

This approach is further supported by our recent tender, when in Autumn 2021 we re-tendered for the services required in 2022/23 and 2023/24 only, focusing on the shortfall for the initial years of the ED2 period. However, we received only 200kW in response, with providers confirming that they were not yet in a position to offer any additional capacity within the shorter timeframe. We will be seeking input from stakeholders on our new processes, with the intention to consult later in 2022.

Commitment to Market Development

We continue to demonstrate our commitment to developing new market opportunities for flexibility providers. For example, we have recently commenced a trial to evaluate customers shifting demand to specific time-periods when excess generation is available on the network. We are working with Octopus Energy, seeking a response from up to 9000 of their domestic customers in the Dumfries and Galloway area to move their demand following an instruction delivered less than 24 hours in advance. We believe this will provide valuable learning on what is achievable, the level of response we can expect and the impact on our network. We will report on the findings following the completion of this trial in April.

In addition, we will consider trials related to LV flexibility services and on the types of platforms will be required. It is also our intention to carry out further deployments of our ground-breaking Reactive Power service, which will commence in early 2023.

Procurement Statement

As we will not be procuring flexibility services this year, we are not required to publish an official Distribution Services Procurement Statement as outline under Condition 31E.8, however we will notify stakeholders of our position and the timeline for our next tender. Should our intentions in respect of the procurement of flexibility services change, we will prepare a Distribution Flexibility Services Procurement Statement in accordance with the provisions of 31E.8 and submit it to Ofgem for approval.

We are fully committed to the roll-out of flexibility services as a network solution, where it represents the lowest overall cost for our customers. To realise the full potential of flexibility service solutions we are now developing the organisational structure and business processes to deploy flexibility at scale and to create the capability to grow flexibility market opportunities.

Yours sincerely



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