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Dear Louise

Ref : 'C31E Guidance – Call for Input'

Summary

We believe that the guidance for license condition C31E needs to cover all flexibility procurement including flexibility that DNOs 'procure' through acceptance of flexible connection requests from new connectees. This source of flexibility is opaque and the discovery of the value of flexibility is one sided, being set by the DNO. As such it has a knock-on consequence to flexibility markets, removing demand for flexibility. We believe that the guidance should include dispatch of flexible connections to ascertain how DNOs are procuring most of the flexibility needed.

We would also like to see Procurement Statements linked back to the Common Evaluation Methodology (CEM) used to ascertain whether flexibility is an economically rational option for DNOs to follow for each constrained part of the network. This will allow stakeholders to investigate Procurement Statements to ensure that the assumptions used are widely agreed upon and that the need for (or lack of) flexibility is correct. Stakeholders are likely to use these Procurement Statements to help customers with flexibility capability in particular areas and therefore may be used to design contracts. Because of this, outputs from the Statements must be as correct as possible to help providers and customers (especially those who may invest in order to be able to participate in future tenders).

The Procurement Report must include flexibility from flexible connections so that Ofgem and stakeholders can hold DNOs to account over how open and transparent their procurement of flexibility is and its impact on the discovery of the true value of flexibility through markets.

Finally, we would like to see 'at a glance' summaries of these statements/reports with access to the primary data if an issue is spotted in a summary.

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Questions

Q1. Does the Guidance require specific amendments or additions?

It is our belief that the guidance for reporting under license condition C31E does not give clarity as to whether flexibility that the DSO obtains through connection agreements is covered. When a new asset (demand or generation) wishes to connect to a constrained part of the network, DNOs are currently able to offer the new asset a quicker, cheaper connection in exchange for a flexible connection where the DNO has the right to curtail the connection as and when the DNO needs to protect the network. The Access SCR is currently investigating a standard form to flexible connections, but to our mind, this is still procurement of flexibility¹ and should be incorporated into the license condition (if it is not already) such that stakeholders can see how much flexibility is being 'procured' via this route. This is important as flexible connections give DNOs access to flexibility outside of a market mechanism and where the DNO is able to set the price of the flexibility without any negotiation with the connectee. Therefore, DNOs are able to set an artificial value to flexibility which will have a knock-on effect to markets where flexibility is also being procured. Therefore, we would argue that license condition C31E should be extended to cover flexible connections so that Ofgem can ensure that the majority of flexibility required by a DNO is being procured through open, transparent market processes and not via hidden, one sided flexible connections.

Q2. How would you propose to use the information provided through the Distribution Flexibility Services Procurement Statement? Do the contents and format proposed in this Guidance support or complicate this use case?

Information provided through the Distribution Flexibility Services Procurement Statement will inform our tactical customer engagement, ensuring that we are talking to customers in areas identified as needing flexibility to ensure that those with flexible assets are fully aware of the potential revenue streams that they could be accessing. The contents of the Statement will need to be sufficient that we can give the customer a clear picture of the impact it may have on their asset e.g. timeframe when flexibility might be required, likelihood of action being taken, size of requirement as well as the benefits that they may be able to win e.g. payments (availability vs. utilisation), length of contract etc.

From a 'need for flexibility' perspective (Section 2.21 in the guidance), we would expect the Procurement Statement to point to the work done by the DNO to ascertain whether flexibility is an economically feasible option via the Common Evaluation Methodology (CEM). We would expect to see DNOs using open data/assumptions for that evaluation such that should a DNO publish a Procurement Statement that states it has no need for flexibility over the coming regulatory year that this can be demonstrated via the CEM to Ofgem's satisfaction.

¹ 1.11 of the guidance states "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."

Q3. How would you propose to use the information provided through the Distribution Flexibility Services Procurement Report? Do the contents and format proposed in this Guidance support or complicate this use case?

The Distribution Flexibility Services Procurement Report will be used by stakeholders (including ourselves) to understand why tenders were not accepted and to ensure that the tender evaluation process was adhered to.

We believe that Section 3.8 (b) should include not just the DNOs perspective for why the tender for flexibility was not met but also include stakeholders' views. This is to ensure that if the problem of tenders not being met was due to a DNO perspective i.e., prices were considered to be too high that the other side of the issue can also be taken into account.

As stated in Q1, we believe that the Procurement Report should also cover flexibility 'procured' via flexible connection so that stakeholders and Ofgem can see which routes (markets or bilateral agreements) DNOs are procuring the majority of their flexibility through.

Q4. What level of locational granularity is preferable to understand flexibility procurement activity, and for what applications? At what level of granularity are the proposed use cases limited?

Locational granularity need only go down as far as the tenders being sort from a flexibility provider perspective i.e., if a DNO is only tendering for HV flexibility there is no need to understand where on the LV network the accepted bids/dispatch were. As a flexibility provider we do not need to be concerned with where in the tendered area the asset lies. If a DNO runs a tender at a certain level i.e., HV and all the flexibility that bids comes from a small area on the LV network, it is up to the DNO to understand whether this will have any unforeseen impacts on the network should all the flexibility be called upon to dispatch and if so to alter the tender to be run at a lower level.

Q5. How would you propose use the data provided in the Supporting Data template?

Where dispatch data has not been included in the Procurement Report for flexible connections, this could be an alternative place to record such data. We believe it is vitally important for markets to flourish that flexible connection flexibility is not the dominant source of flexibility for DNOs.

Q6. Do you have a strong preference for the provision of primary data, at a glance summaries, or other means of data sharing?

We do not have a strong preference. 'At a glance' summaries do offer a simple overview that may highlight a particular problem that can then be investigated further in the primary data but can also mask problems through averaging across all tenders. Primary data removes the risk of masking an issue, but the quantity of

data may be a constraint due to limited human resource to go through it all. We would propose 'at a glance' summaries but with access to the primary data should a stakeholder have a particular issue.