



# International experience and perspectives on local electricity markets for the procurement of flexibility services

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*MERLIN Dissemination Event  
24 June 2021*

# About our contribution to MERLIN

*With thanks to Karim Anaya and all our colleagues from Project MERLIN*



*With thanks to distribution utilities/ESOs (Ausgrid, Avacon, Enedis, Liander, NGENSO, Stedin, Tennet, Tepco, UK Power Networks, Western Power Distribution), ENA UK, FfE, NYSDPS, Silicon Grid, energy experts.*

**MERLIN** = Modelling the Economic Reactions Linking Individual Networks:  
Is a BEIS funded innovation project, under the Power Forward Challenge:  
Canada-UK Joint Challenge on Smart Energy Systems.



Project reports published at SSEN website. <https://project-merlin.co.uk>

This presentation draws on our first, second and third reports:

- The first of which compares 13 use cases of DNO/DSO to procure flexibility
- The second makes recommendations of what can be learnt from the cases
- The third identifies key regulatory aspects for the development of local flexibility markets in 7 jurisdictions
- The fourth (forthcoming) measures the value of procuring flexibility (CBA) under key scenarios

# Procurement projects we examine

- Selection of Use Cases (13 in total) from 7 jurisdictions.
- Discussion of latest projects/initiatives (from 2017 onwards).

Country	project/initiative name	project leader(s)	type	start date	status	use of an independent platform (e.g. marketplace, others)
Australia	Battery Virtual Power Plant (VPP)	Ausgrid (DSO)	demonstrator	Jun-18	ongoing (Phase 1 completed)	no
France	Nice Smart Valley	Enedis (DSO)	demonstrator	Jan-17	end Dec. 2019	no
Germany	Avacon	Avacon (DSO)	demonstrator	Jan-17	end Dec. 2019	no
	The Altdorfer Flexmarkt (ALF)	FfE e.V.	demonstrator (proof of concept)	2017	ongoing (end in 2020)	yes
GB	Power Potential	NGESO (TSO)	demonstrator	2017	ongoing (end in March 2021)	no
	Flexible Power	WPD (DNO)	BAU	Mar-19	ongoing	no (but it can be also via Piclo Flex, CLEM)
	Flexibility Services	UKPN (DNO)	BAU	Mar-19	ongoing	yes (only via Piclo Flex)
	Piclo Flex	Piclo	BAU	Mar-19	ongoing	yes (involves several DNOs)
	Cornwall Local Energy Market	Centrica	trial	May-19	ongoing (Phases 1 and 2 completed)	yes
Japan	V2G Demonstrator Project Using EVs as Virtual Power Plant Resource	Tepco (integrated utility: DSO/TSO)	demonstrator (proof of concept)	Jun-18	ongoing (end in 2020)	no
The Netherlands	Dynamo	Liander (DSO)	BAU	Q4 2017	ongoing	no
	GOPACS	TenneT (TSO) and 6 DSOs	BAU	Jan-19	ongoing (potential extension to first DSOs: Liander, Stedin)	yes, national platform (involves several DSOs)
Norway	Nodes	Nodes	BAU	2018	ongoing (different European countries)	yes

# Current developments in local flexibility markets

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## Questions raised per each Use Case:

- *What are the recent developments in **smart architectures and solutions** for the procurement of flexibility services?*
- *What are the **different proposals for market design** for the procurement of flexibility services?*
- *Why are **new business models** required to capture the value of flexibility?*
- ***How do network operators value flexibility?***
- *What are the **most and least common trends** in the acquisition of flexibility services and what is still missing?*
- *Can **regulatory changes help to unlock the value of flexibility** for a more efficient grid management and service provision?*

# Current developments in local flexibility markets

## Summary of Use Cases (selected)

Country	Use Case	product/service to be traded/tested	flexibility providers	aggregators	price rule	use of maximum prices, ranges (market-based only)	remuneration scheme
GB	<b>Power Potential (NGESO)</b>	reactive and active power	PV systems, wind turbines, CHP, biogas plants, etc	optional	pay-as-bid (wave 2)	no	utilisation (active and reactive power) and availability (reactive power)
	<b>Flexible Power (WPD)</b>	flexibility services (several)	PV systems, wind turbines, CHP, biogas plants, storage systems, flexible loads	optional	pay-as-bid (with regulated prices)	yes	availability (secure, dynamic), utilisation (secure, dynamic, restore); with maximum prices (£300/MWh secure, dynamic; £600/MWh restore)
	<b>Flexibility Services (UKPN)</b>	flexibility services (several)	PV systems, wind turbines, CHP, biogas plants, storage systems, flexible loads	optional	HV: pay-as-bid, LV: regulated price	yes (range per site)	availability (secure), utilisation (secure, dynamic), service fee (sustain: £47.58/kW/year). Range (with lower and upper values) regarding total price for HV (secure)
	<b>Piclo Flex</b>	flexibility services (several)	PV systems, wind turbines, CHP, biogas plants, storage systems, flexible loads	optional	pay-as-bid	yes (based on each DNO's requirements)	utilisation and/or availability depending on the service
	<b>Cornwall Local Energy Market</b>	flexibility services (several)	diesel generators, gas turbine, flow battery, domestic battery clusters, ice manufacturer	optional, phase 1 (Kiwi Power)	phase 1: pay-as-bid (with regulated prices), phase 2: pay-as-clear	yes (Phase 1)	phase 1: utilisation, phase 2: utilisation, availability (reservation). Regulated price up to £300/MWh (combined) in phase 1
The Netherlands	<b>Dynamo</b>	constraint management (congestion)	Lidl (with cold store and battery at the distribution centre), Van del Valk (heat pump)	required (Scholt Energy)	regulated price (aggregator)	not applicable	availability and utilisation. High ratio availability/utilisation (0.9)
	<b>GOPACS</b>	constraint management (congestion), TSO-DSO coordination	PV systems, wind turbines, CHP, biogas plants, storage systems, etc	optional	pay-as-bid (trading parties), TSO/DSO pay a spread (difference between buy and sell order)	no	dispatch (utilisation)

# Current developments in local flexibility markets

## Main findings and recommendations based on Use Cases

<i>smart architectures and solutions</i>	<i>market design for flexibility services</i>	<i>the value of flexibility</i>
different bespoke and third-party platforms in use	different designs with a variety of services to be procured	different ways to value flexibility, from regulated prices to market-based ones
easy for participants to understand and access extensive stakeholder engagement	clear rules need to be adopted, ideally aligned with the current ones and ensure consistency, standardisation and stakeholder buy-in	need of a standard cost-benefit methodology with the incorporation of social values to be published and with indication of WTP
<i>new business models</i>	<i>most and less common trends</i>	<i>the role of regulation</i>
different channels to procure flexibility aggregators are playing an important role	most: to solve congestion, multiproduct, PAB less: pay-as-clear, reactive power, etc	can help via different ways, a supportive regulatory environment is crucial
distribution utilities must identify the sources of value and to market test them	to experiment a reverse clock auction with a customer revenue benefit target	Unlocking the value of flexibility depends on allowing the benefits to society to be monetised via the regulatory regime

# The role of regulation in supporting DSO flexibility procurement

## Questions raised:

- To what extent the current regulatory frameworks from different jurisdictions support the development of the future distribution utility with a focus on the use of flexibility?
- What is missing and the status of current or future proposals to deal with this?

## Methodology:

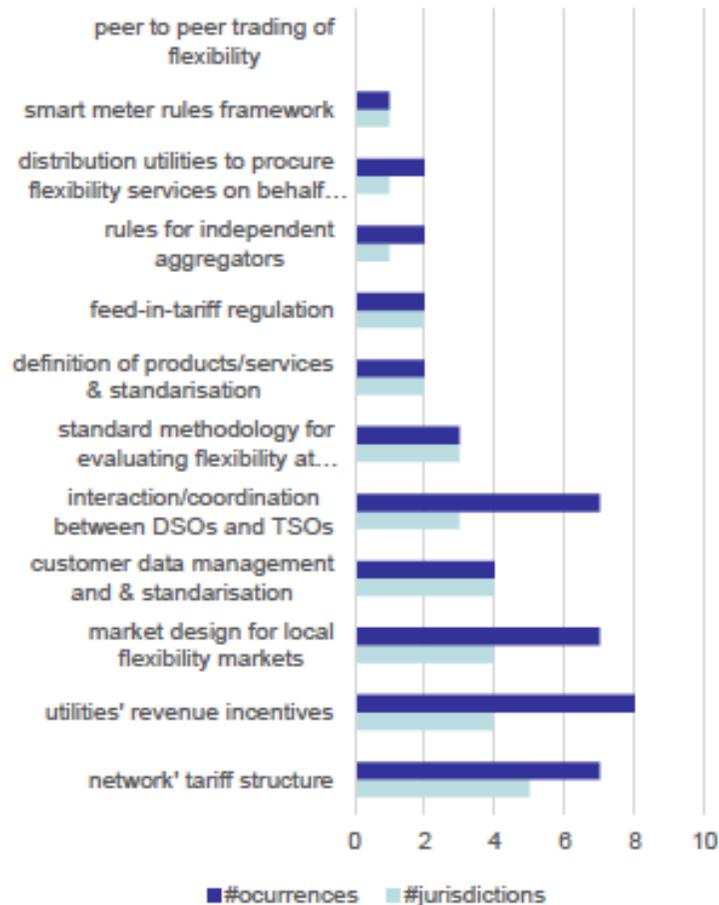
- Questionnaires were designed and sent to key parties
- Identification of key regulatory topics (12 in total)
- The questionnaires aim to capture for each regulatory topic what has been already changed (past), what is currently under consideration (present) and what should be changed (in future)
- If at least one of the participants confirmed any existing change, or changes being Considered/changes that should be considered we mark the country response as a “Yes

## Summary of respondents to questionnaires:

Summary of responses	AU	FR	DE	GB	JP	NL	NO	total
Regulator	1		1	1		1	1	5
Distribution utilities	1	1	1	3	1			7
Energy Associations	1			1				2
Platforms/marketplaces				2			1	3
Experts					1			1
number of responses	3	1	2	7	2	1	2	18

# Expert views on the role of regulation in supporting DSO flexibility procurement

Top 3 regulatory aspects



Top 3 country level summary

utilities' revenue incentives	AU	FR	DE	GB	JP	NL	NO
already changed?	yes			yes	yes		
change being considered or should be considered?	yes	yes	yes	yes		yes	
top 3	yes		yes	yes	yes		

network tariff structure	AU	FR	DE	GB	JP	NL	NO
already changed?	yes	yes					
change being considered or should be considered?	yes	yes	yes	yes		yes	yes
top 3	yes	yes		yes		yes	yes

market design for local flexibility markets	AU	FR	DE	GB	JP	NL	NO
already changed?						yes	
change being considered or should be considered?	yes		yes	yes	yes	yes	
top 3	yes		yes	yes	yes		

# Observations on regulation and local flexibility markets

## Key Takeaways

- Even where flexibility markets are highly developed and incentives (i.e. DSO revenue model and tariff structure) exist to undertake least cost procurement, it remains unclear as to whether they are cost effective at a sustainable scale.
- More dynamic network tariffs have been or are being considered in several jurisdictions, but all jurisdictions remain cautious as to the practicality of their implementation.
- While there are moves across multiple jurisdictions to specify and standardise flexibility products it remains unclear as to whether this is the optimal way to handle customer willingness to pay which is not a function of the flexibility product but of the assets' characteristics.
- Market design of flexibility markets is a work in progress, and we remain in an experimentation phase.
- There is little interest across our jurisdictions in P2P trading as an issue in current debates about flexibility markets. The focus, outside GB, remains on procurement by the distribution utility to meet its own needs.

# Observations on regulation and local flexibility markets

## Key Takeaways

- The facilitation of increased co-ordination between TSOs and DSOs is actively being pursued across most of the jurisdictions where unbundling is in place, with some signs of active conflict between the TSOs and DSOs in some areas which needs to be addressed.
- Allowing DSOs to procure flexibility on behalf of the TSO is not seen as a big issue outside of GB. This reflects the fact that currently DSOs and TSOs are procuring very different types of flexibility and trying to avoid direct competition or even direct contractual relationships. It is not clear how sustainable this avoidance of conflict (and its resolution) is in the longer run.
- Most of our jurisdictions are working on a common cost benefit methodology to evaluate flexibility solutions. There is clearly a need for this and for it to be consistent with standard social cost benefit methodologies being used by central and local government.

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