



Business Plan 2023 - 2028

SA-08 Supplementary Annex Competition

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1. Introduction

- 1.1. The next regulatory price control review period, known as RIIO-ED2, is a five year period and is the second for electricity distribution to be determined using Ofgem's Revenue = Incentives, Innovation and Outputs framework. This price control period runs from 1st April 2023 to 31st March 2028.
- 1.2. Western Power Distribution (WPD) is required to submit a 200 page main Business Plan document, supplementary annexes, detailed cost tables, financial information and a range of other documents which form our submission under RIIO-ED2 to Ofgem, which will be used to determine allowed revenues for the price control period.
- 1.3. Our RIIO-ED2 Business Plan has been produced and compiled in line with the following key principles:
 - Co-created with our stakeholders and supported by them.
 - Our plan – 'prepared with our stakeholders for delivery by us'.
 - Aligned with WPD's purpose and values.
 - Affordable for all of our customers.
 - Sustainable and will enable net zero before 2050.
- 1.4. The diagram below (figure SA-08.0) shows the structure of the full Business Plan submission with the red box showing where this document fits into the overall suite of documents.

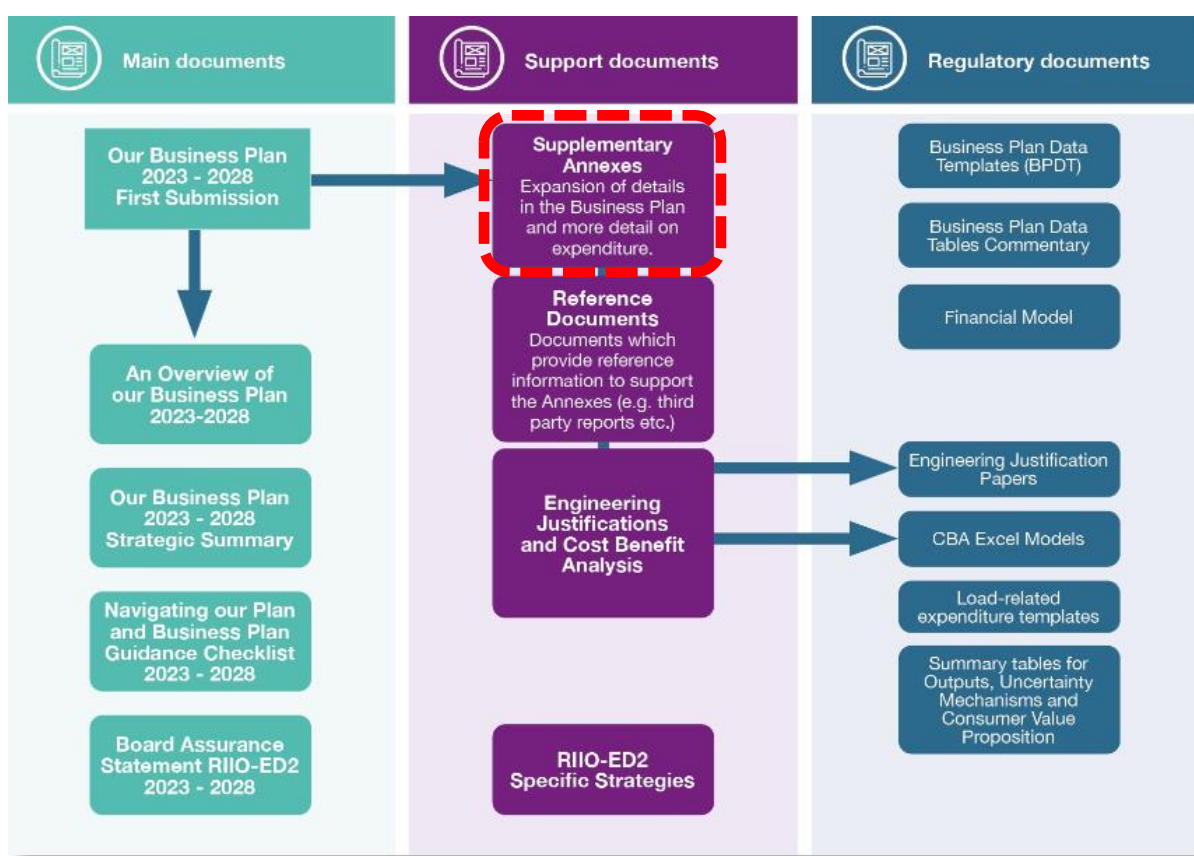


Figure SA-08.0 Business Plan submission structure

- 1.5.** Chapter 8 of Our Business Plan 2023 -2028 First Submission details our approach to managing competition through the period from 2023 to 2028, for the four WPD distribution licences of West Midlands, East Midlands, South Wales and South West.
- 1.6.** This document is a Supplementary Annex to Chapter 8.
- 1.7.** We appreciate that the readers of the WPD RIIO-ED2 Business Plan suite of documents will range from regulatory experts and well-informed stakeholders through to new customers who may have had little previous knowledge of WPD.
- 1.8.** This document is aimed at readers who require a more detailed understanding of the commitments that will be delivered. A less detailed description of the outputs can be found in the main RIIO-ED2 Business Plan or the RIIO-ED2 Overview document.
- 1.9.** This document is subdivided into the following sections:

Section	Title	Content
2	Competition	This section provides a description of types of competition including native, early and late competition.
3	Facilitating competition with flexibility	The section describes how flexibility is used to facilitate competition.
4	Contractual arrangements	This section shows the arrangements in place for contracts and tendering activities.

2. Competition

- 2.1. WPD supports competition in electricity distribution wherever it can deliver benefits for consumers. In our sector, we have already seen a number of areas opened up to wider competition, including connections, metering and the introduction of Independent Distribution Network Operators.
- 2.2. WPD will continue to explore new solutions to minimise cost through innovation, keeping options open, facilitating non-network solutions and enabling competition where it is economic to do so and helps to lower the cost of overall energy system operation.
- 2.3. WPD's purchasing strategy to multi-source goods and services not only protects the business from a single point of failure but also encourages competition ensuring fit-for-purpose contracting across all sizes of project.
- 2.4. This chapter explains the different types of competition.

Types of competition

Native competition

- 2.5. Native competition is competition run by DNOs within their price control.
- 2.6. Our approach to native competition is based on the following principles:
 - Demonstrating innovation and fresh thinking in approaching the market.
 - Effective use of insourcing, and limited use of contractors where required, to embed competition between our teams and add customer value.
 - Keeping abreast of developments in the market and acting quickly when we see opportunities to innovate and do things differently.
 - Continuing to fund the development of innovative products and services where these are not market ready.
 - Continuing to look for opportunities to deploy early-or late-stage competition models where a new high-value project emerges.
- 2.7. During RIIO-ED2, we will continue to be ambitious by exploring and improving our native approach to competition to ensure we deliver the best outcomes for consumers which considers the flexibility in a period of significant evolving policy landscape with greater contractual certainty, quality and lower costs.
- 2.8. WPD's insourcing model allows us full control of the end-to-end process with our customers with clear lines of ownership and responsibility bringing us closer to the customer. It has also enabled us to respond quickly to changing circumstances, deliver efficiencies, avoid contractual disputes and ensure we retain full knowledge and expertise within our business.
- 2.9. In an evolving policy landscape, which is influenced by the growth of new initiatives, including community energy and Vehicle to Grid (V2G) technology, DNOs are well placed to facilitate and develop opportunities for a future market.
- 2.10. We do not believe there are significant new opportunities for further competition in RIIO-ED2 to deliver customer benefits beyond those we are already using in RIIO-ED1. These will continue into RIIO-ED2- for example WPD was the first DNO to seek alternative solutions to traditional network reinforcement for the £140m of reinforcement planned for the last three years of RIIO-ED1.
- 2.11. Chapter 5 of Our Business Plan 2023 -2028 First Submission sets out our plans for using and incorporating third party contracts and flexibility options within our plan to deliver the most efficient solution.

- 2.12.** We are proud to be industry leading in the way we have tested the market for alternative solutions to network capacity issues. In 2020, WPD was the first DNO to go out to tender for flexibility contracts on all the areas of reinforcement planned for the last three years of RIIO-ED1.

Early competition

- 2.13.** Early competition is competition that occurs prior to the detailed design, surveying and consenting phases of a large project.
- 2.14.** We do not have any specific projects identified that exceed, or have the potential to exceed, the £50 million threshold identified for early competition in our RIIO-ED2 Business Plan. We will continue to review this position as we receive further clarity on the UK's decarbonisation pathways and the potential for more and larger projects to be considered.

Late competition

- 2.15.** Late competition is when a decision is made later on in a project programme, prior to physical construction, to open the delivery of a large project up to competition.
- 2.16.** We do not have any projects identified in our RIIO-ED2 plan that either exceed, or have the potential to exceed, the £100 million identified by Ofgem for late competition.
- 2.17.** We will continue to ensure and demonstrate that all investments, regardless of size, achieve the best outcome for consumers through the implementation of our plan.

3. How we are facilitating competition with flexibility

- 3.1. Using flexibility services, we aim to build in competition, both to facilitate alternative options for managing constraints (such as reinforcement), and to encourage competition between providers. The aim is to find the optimal solution for the network.
- 3.2. Our decision making process for determining the optimal solution for each constraint is called the Distribution Networks Options Analysis (DNOA). This is carried out on a biannual basis, leading to two rounds of flexibility service procurement each year. The DNOA process is used both to look forward and identify where services should be procured to help mitigate constraints, as well as looking backwards to ensure they continue to provide value. Further details can be found in Appendix A10.
- 3.3. To improve transparency around the way DNOs reach decisions about flexibility procurement and the potential to delay conventional reinforcement, a Common Evaluation Methodology CBA tool has been created as part of the Open Networks project. This tool is used in the DNOA process to assess the net benefit of flexibility against a baseline of conventional reinforcement for scenarios over a number of years.
- 3.4. If flexibility has been selected as the optimal choice, a formal process is used to tender for providers. The procurement process is described in further details in Appendix A02. We currently utilise a Dynamic Purchasing System to openly and competitively procure against our requirements. Before awarding contracts, the backwards looking DNOA process will be triggered to ensure value is still being delivered to customers, based on the final commercial terms.
- 3.5. We encourage competition by using a regular six monthly timetable when seeking flexibility. The timetable is set two years in advance and can be found in Appendix A08.
- 3.6. The contractual terms are aligned with the Open Networks standard whole system contract, ensuring consistency across the DNOs and reducing the barriers of entry to new flexibility service providers. The contractual terms can be found in Appendix A03.
- 3.7. Because of the geographic nature of distribution flexibility services, we have adopted a pricing strategy to manage the growth of provision to create longer term competition. This builds from fixed pricing in emerging markets, out to full market competition in more established ones. The pricing strategy can be found within Appendix A06. The three phases of the pricing strategy are shown in Figure SA-08.1.

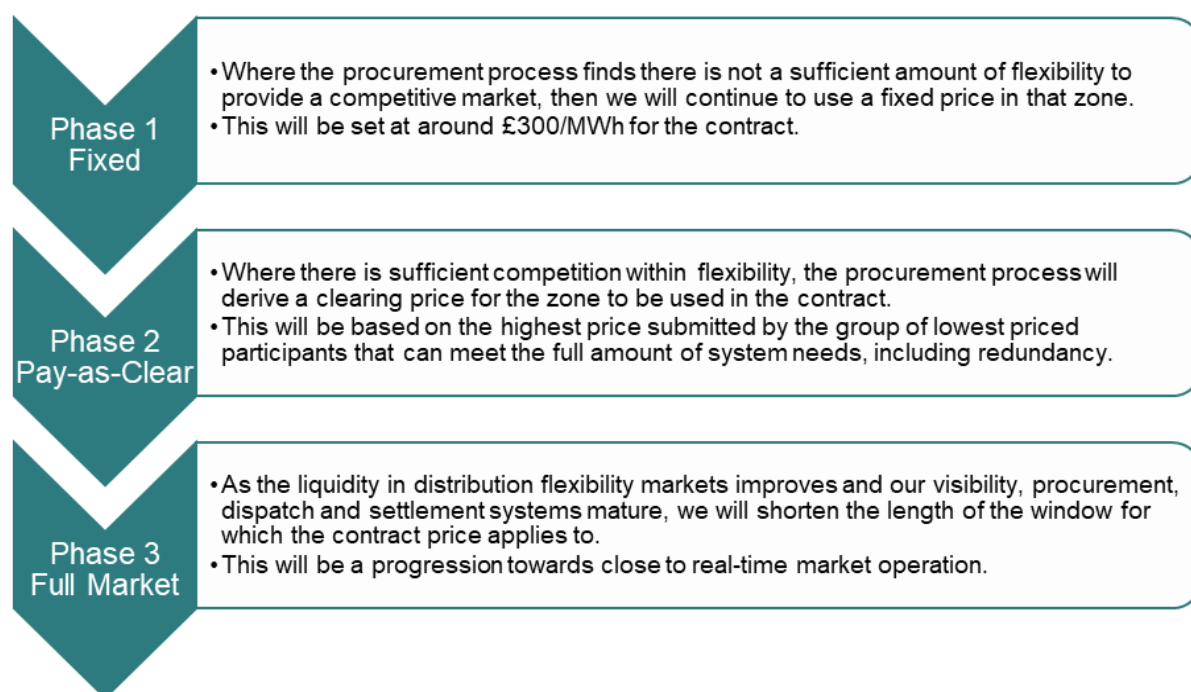


Figure SA-08.1 Three phases of the pricing strategy

- 3.8.** To determine the zonal price in sufficiently competitive areas, a clearing process is undertaken which decides which flexibility service providers (FSPs) are taken forward to form the pay-as-clear grouping. More details on the clearing process can be found in Appendix A07.
- 3.9.** As we currently operate a fixed price or pay-as-clear pricing structure, there is no differentiation in price between FSPs. However, we do optimise our instructions, instructing in an order which most closely aligns with the required flexibility. Our acceptance and dispatch principles are documented in Appendix A05. As our operational experience increases, we will use this information to provide feedback to FSPs in areas and support them to maximise their value to the system. As our procurement strategy matures towards full market-led pricing, the pricing submitted for each flexibility asset will be the dominant factor for consideration. In line with the Open Networks project, our instructions are led by the factors shown in figure SA-08.2.

Principle	Description	In Practice
Security	The needs of the system will be met using flexibility in such a way that security of supply is maintained.	DSO/DNO requirements: Conform with applicable standards with an appropriate management of risk.
Cost	Flexibility will be operated to meet system need at the minimum level of cost.	Lowest prices per MWh and minimum levels of over procurement. Flexibility will be procured in cost order and will not unduly discriminate against any provider.
Operability	DSOs will seek to instruct services that offer compatible levels of operability.	Provider characteristics: availability, reliability, run times, response times etc... Accepted offers need to match/partially match requirements.

Figure SA-08.2 Factors affecting market led pricing

- 3.10.** Through the Flexible Power platform, we invite aggregators, integrators and other virtual power plant providers to be service partners of the platform. Subject to complying with the service partner guidelines, Flexible Power service partners can have their details added to the platform's webpage, directing FSPs to them if they require support on offering services to WPD. More information can be found in Appendix A04.
- 3.11.** An informed market is essential to fostering competition. As such, we seek to publish as much market information on our requirements as possible. This includes:
- Details on our processes for flexibility procurement, through the documentation on the Flexible Power website, as well as our distribution flexibility service procurement statement. The C31E statement can be found in Appendix A01.
 - Details on our requirements through the Network Flexibility Map, Flexible Power Map, Procurement Documents and DNOA report.
 - Details on procurement results, through Procurement Results reports & formal procurement Contract Award Notifications. These are outlined in Appendix A09. This will be supplemented by Distribution Flexibility Services Procurement Report
 - Details on our operational requirements through the provision of monthly forecasts.

4. Contractual arrangements

Purchasing Strategy – Ensuring goods and services are provisioned with procurement excellence

Overview

4.1. The in-house WPD team is accredited to the Chartered Institute of Procurement and Supply (CIPS). The team, consists of 4 Senior Buyers, and 16 Buyers, facilitating the management of c. £1.9 billion of contract value expenditure across three key areas;

- a) Services - excavation, cable laying, vegetation management, Transport, IT and Facilities etc.
- b) Major Projects - major construction works
- c) Goods & Plant - materials, equipment, electrical plant and machinery

**CIPS Procurement Excellence Programme since 2011*

4.2. The team also ensures regulatory compliance operating within the parameters of the Utilities Contract Regulations (UCR) 2016 through the use of a competitive tendering process designed to provide transparency and fairness to suppliers for purchasing the most economically advantageous goods and services on the vast majority of our commercially provisioned expenditure. This process affords WPD an opportunity to bench mark costs across all compliant submissions.

Purchasing Vision and Objectives

“To provide Western Power Distribution with world class, accredited, purchasing”

4.3. The Purchasing Teams main objective is to procure materials and services that allows the business to operate a high quality, reliable, efficient network whilst ensuring compliance with the Utilities Contract Regulations. WPD contracts shall include WPD's core commitments, whilst recognising an increasing need for enhanced cyber security, as detailed below;

1. Meet the needs of consumers and network users - WPD must deliver a high quality and reliable service to all network users and consumers, including those that are in vulnerable situations
2. Maintain a safe and resilient network - WPD must deliver a safe and resilient network that is efficient and responsive to change.
3. Deliver an environmentally sustainable network - WPD must manage the impact of their activities on the environment and enable the transition towards a smart, flexible, low cost and low carbon energy system for all consumers and network users
4. Adopt a standardised approach to ensure cyber security principles and controls are embedded into the supply chain for all areas of WPD, including IT, WPD Telecoms.

Contracting Strategy

- 4.4. WPD source goods and services to meet the demands of the business as detailed within the business plan. An experienced member of the business is directly involved in the tender process facilitated by the buyer as contracts vary widely in terms of skill, and product type, ranging from excavation services, cable laying, vegetation management, cleaning, craft staff, purchasing electricity distribution assets, vehicles, I.T. equipment and personal protective equipment to name a few.
- 4.5. A small number of contracts are also provisioned to supplement WPD's in-house resource as required, these mainly include core skills trained and employed within WPD such as cable jointing, overhead line related works and substation fitting. The majority of outsourced service led contracts are often split into multiple lots attracting localised service providers to compete for work within their area of operation supporting small and medium enterprises to engage with WPD. In return multiple lots increases the scope of competition, drives efficiency and minimises the risk of a single point of failure. Similarly, goods which are identified by the business as critical to the operation, are dual sourced as a minimum, promoting increased competition, supporting multiple companies whilst minimising the risk of single source failure.

Methods of Procurement Award

- 4.6. Post tender, WPD award utilising Framework Agreements to speed up the commercial process during the life of the contract which allows the business to "call off" goods and services swiftly to meet the business needs. Mini-competitions are often embedded within key frameworks to drive competition further into our supply chain, and in addition, bespoke contracts are also used for small volume driven work or an ad-hoc business requirement.
- 4.7. High standards in regards to safety, quality, performance, service, security and environment are embedded within all our contracts through tailored specifications and key performance indicators both incentivises our suppliers, but also sets high standards designed to assist WPD achieving our business objectives.

Integrity of our Suppliers

- 4.8. In line with the Utilities Contract Regulations we treat all suppliers and contractors fairly, with honesty and as part of our commitment we promote prompt payment practices for our contracted suppliers.
- 4.9. WPD only engage with suppliers and contractors who share WPD's values and social contract commitments whilst adhering to modern slavery and equality laws. In order for our suppliers and contractors to share our values and ethics, our principals are cascaded through our suite of policies, procedures and contracted terms and conditions, allowing contractors access to our policies via a controlled website.
- 4.10. All contractor relationships are managed through routine contract review meetings discussing safety, performance, sharing workload forecasts, service levels, key performance indicators, finance, environment and ethical matters as required, ideally allowing issues to be addressed before becoming an issue. Key contractors are invited annually to attend a WPD led safety conference.

5. Appendices

Appendix A01 - Distribution flexibility services procurement statement (C31E)

- 5.1. As part of licence condition C31E, we have published a statement detailing the various routes to procurement we intend to use to seek flexibility services in the coming regulatory year. This document sets out our approaches to procurement, the products being sought and the methodology used to award contracts.
- 5.2. The statement can be found on our website at:
<https://yourpowerfuture.westernpower.co.uk/downloads-view/40908>

Procurement Results: 2017/18, 2018, 2019 H1, 2019 H2, 2020 H1, 2020 H2, 2021 H1

Appendix A02 – Flexibility service procurement process

- 5.3. This report details the full process all interested parties are required to follow in order to be eligible to tender for participation in WPD flexibility services.
- 5.4. The report can be found on our Flexible Power website at:
<https://yourpowerfuture.westernpower.co.uk/downloads-view/40911>

Appendix A03 – Standard Flexibility Agreement

- 5.5. A standard whole system flexibility contract has been created by Open Networks. WPD has committed to adopt and use the standard contract, including swift implementation of any future changes. Since the original publication of the version 1 contract, we have used these in our subsequent tenders.
- 5.6. The latest version of this contract is published here:
<https://yourpowerfuture.westernpower.co.uk/downloads-view/40914>

Appendix A04 – Service Partner Agreement and Guidelines

- 5.7. Aggregators who have integrated with the Flexible Power platform may wish to become a registered service partner of Flexible Power. This allows their contact details and logo to be added to our service partner webpage, directing flexibility service providers to them if seeking aggregation routes to participation.
- 5.8. The service partner agreement and guidelines can found at: <https://yourpowerfuture.westernpower.co.uk/downloads-view/40917>

Appendix A05 - Acceptance & Dispatch Principles

- 5.9. During the operational phase of flexibility, the DSO decides which flexibility services are accepted from the flexibility service provider's declarations, and closer to real-time, decides on which services are selected for dispatch and activation. To ensure transparency of actions, acceptance and dispatch principles have been published which outline the criteria used to select these functions.
- 5.10. The principles are published at: <https://yourpowerfuture.westernpower.co.uk/downloads-view/40920>

Appendix A06 - Pricing strategy

- 5.11. The pricing strategy describes the competition tests undertaken when procuring to decide whether sufficient competition exists to move to a "best offer" pay-as-clear price discovery or whether fixed pricing is required.
- 5.12. The strategy can be found here: <https://yourpowerfuture.westernpower.co.uk/downloads-view/40923>

Appendix A07 – Clearing process

- 5.13. To inform zonal pricing when in a competitive zone, a clearing methodology is employed to select the amount of flexibility service providers and the aggregate amount of capacity taken forward to determine the clearing price.
- 5.14. This can be found here: <https://yourpowerfuture.westernpower.co.uk/downloads-view/40926>

Appendix A08 – Procurement timetable

- 5.15. WPD runs a six monthly procurement process and has established regular periods for signposting, qualification, tendering and award. A two year forward looking procurement timetable is published to signal future intentions to the market.
- 5.16. The timetable can be found at: <https://yourpowerfuture.westernpower.co.uk/downloads-view/40929>

Appendix A09 – Flexibility tender results

- 5.17. The results of concluded flexibility tender results have been openly published since 2017.
- 5.18. The results can be found at: <https://yourpowerfuture.westernpower.co.uk/downloads-view/40932>

Appendix A10 - Distribution Network Options Assessment Report

- 5.19. The Distribution Network Options Assessment (DNOA) outlines investment decisions made by WPD in order to deal with constraints that arise across our license areas. This includes demand side response procured through WPD's Flexible Power, conventional reinforcement schemes and innovative solutions such as active network management. To determine the economically optimal solution, cost-benefit analysis is carried out which is described in the DNOA. By outlining our analysis process stakeholders and customers can be assured that WPD is giving them the best possible value for money while maintaining a secure and sustainable network.
- 5.20. The DNOA also works in tandem with Flexible Power in helping inform flexibility providers of the potential for future opportunities to provide flexibility services with signposting data for the next 5 years.
- 5.21. The DNOA is published on our website at <https://yourpowerfuture.westernpower.co.uk/downloads-view/40935>

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