

### #3

COMPLETE

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**Q1** Are there other options we should have considered? Please provide reasons.

For the current state of the market, and the limited time ahead of RIIO-ED2 to conduct impact assessments and cost-benefit analyses, then the options which have been considered are the most appropriate and pragmatic. For future evolutions (i.e. ahead of RIIO-ED3, or whatever price control model may follow RIIO-ED2) then a wider-ranging more innovative approach might be considered e.g. a cap-and-floor arrangement for returns similar to the model for new interconnectors, or allowing network companies to self-fund assets which will be used for provisions of CLASS services in exchange for a greater share (up to 100%) of the profits. This would incentivise more commercial/entrepreneurial behaviours among network companies and result in consumer savings through not having to fund capital expenditure.

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**Q2** Do you agree that market based mechanisms can provide the most efficient incentive for CLASS participation in balancing services?

Yes

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**Q3** What is your view on DNOs' sharing profits with consumers, even if this means consumers are also exposed to DNOs' losses (including how this might affect DNOs' competitive behaviour noting this is different to other providers of balancing services)?

We agree with the profit-sharing approach. DNOs losses are likely to be the result of under-bidding in balancing services auctions, and so consumers' exposure to losses may be offset by savings in ESO system operation costs.

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**Q4** How might limits on charges to the ESO in DRS9 affect investment and utilisation signals for CLASS?

This would create market distortions and a lack of transparency for DNOs, other providers and the ESO.

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**Q5** Do you agree that requiring CLASS in the price control would not promote efficient investment signals in CLASS and could distort competitive outcomes?

Yes

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**Q6** Do you have evidence that CLASS could increase the likelihood of system reliability issues?

No

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**Q7** Do you have evidence competition is currently being distorted or impeded by the participation of CLASS? Do you agree with our assessment that it is unlikely DNOs have or would have market power in future, and the reasons we have provided in Appendix 2?

We have no evidence of distortion of competition. We agree that DNOs are unlikely to have market power in the future - the MW capacity which DNOs could offer is a factor the change in voltage which they are able to offer via CLASS assets, and this change is limited by regulation and technical considerations.

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**Q8** What information could the DNO have privileged access to that that could offer it an unfair advantage in balancing services provision? How might this change in future if the DNO and ESO increasingly coordinate?

This will depend to some extent on the DSO/ESO coordination model which evolves from the Open Network project. It is possible that DNOs would have visibility of flexibility providers' bids into distribution-level flexibility auctions, could extrapolate ESO-level bidding strategy from these. This, however, is unlikely to be a significant advantage and National Grid has previously been able to manage comparable conflicts of interest between related business units.

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**Q9** What measures would you consider effective and proportionate to ensure that privileged information the DNO has access to is not used inappropriately to benefit the commercial performance of CLASS?

While full scale DNO/DSO separation (along National Grid ESO lines) is probably excessive at this stage, lessons could be learned from previous conflict of interest mitigation measures adopted by National Grid (e.g. EMR, commercial treatment of interconnectors in Balancing Services provision). For the longer term, these concerns could be addressed by implementing a market model similar to Model E (Flexibility Coordinator(s)) described in the Open Networks Future Worlds.

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**Q10** In what other ways do you think DNOs could take advantage of their DNO role in the context of providing balancing services with CLASS?

No comment.

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**Q11** How far do you think existing safeguards (including licence obligations and competition law) against DNOs taking advantage of their DNO role in the context of participating in the balancing markets with CLASS are sufficient?

The existing safeguards are probably sufficient for current levels of CLASS deployment, but a step up in participation might necessitate further measures, as considered in Q1 and Q9 above.

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**Q12** What additional measures would be effective and proportionate to address actual or perceived risks of DNOs taking advantage of their DNO role?

See Q9

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**Q13** Are there other specific effects to competition that are relevant to our decision? What effects would these have on consumers?

No comment

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Regulatory treatment of CLASS as a balancing service in RIIO-ED2 network price control

**Q14** Please enter the requested details below.

Company name

**Amp X**

Email address

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Name of individual

**John Prime**

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**Q15** We will publish non-confidential responses to this consultation on our website. Please confirm whether your response is confidential or non-confidential.

**My response is non-confidential, and can be published on the Ofgem website.**

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**Q16** We are piloting this online portal for consultation responses. Do you have any feedback on this response tool?

Very easy to use

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