

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

Electron Response

23rd March 2020

We understand that Ofgem's goal is to enable the UK energy system to decarbonise at low cost, through competitive markets, whilst ensuring the protection of energy consumers. New, cost-effective flexibility technologies that help to accommodate renewable energy are therefore highly pertinent to Ofgem's objectives. We also recognise that these solutions are likely to come from diverse sources, and that all should be considered if they contribute to consumer welfare.

While CLASS is currently a competitively procured source of balancing services, we are aligned with the reservations expressed by other industry participants that this approach has the potential to inhibit the development of further deep, liquid and competitive markets for flexibility. Moreover, we are aligned with the principle set out in Flexibility First's response to this consultation that DNOs should be neutral procurers and facilitators of flexibility services and markets.

However, we also recognise that network operators have unique responsibilities and capabilities that should play a role if the net benefit to consumers of that action is sufficiently greater than the negative impact on flexibility markets.

We therefore urge that Ofgem conduct a full impact analysis which considers the repercussions of the CLASS precedent that focusses on whether the impact on commercial assets which provide flexibility services, and the appropriateness of two separate models (DNO revenue share and commercial aggregation) compete against one another.

Finally, the CLASS consultation comes in the middle of the broader DSO transition. The debate over CLASS highlights that there is a broader need for clarity on the future role of the DSO. At this time of significant industry change, we urge Ofgem to provide full transparency on decisions which will likely shape the way our electricity system is managed for years to come.