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Sent via email to flexibility@ofgem.gov.uk

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Response to the Ofgem 'Regulatory treatment of CLASS as a balancing service in RIIO-ED2 network price control' consultation

Dear Edwin and Freya,

Robin Hood Energy is a not-for-profit gas and electricity supplier, with over 130,000 customers. We were set up by Nottingham City Council with the aim of tackling fuel poverty and providing consumers with a cheaper, fairer alternative to the six largest suppliers. We work with ten other local authorities, for example Leeds, Liverpool and Derby City Councils, helping them to create their own white label tariff provider in partnership with us.

We would like to thank Ofgem for the opportunity to respond to this consultation, and for their engagement with us during the consultation period. We are supportive of the outcomes that Ofgem are seeking to achieve for the industry. However, we have several concerns with the proposals in their current iteration, and encourage Ofgem to amend their proposals accordingly.

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

No, not in the way proposed.

Customer Load Active System Services (CLASS) is for the purpose of this consultation, the "collective term to describe this set (remote management of transformers and circuit breakers at primary substations, and reducing or increasing electricity demand and absorbing reactive power) of remotely managed voltage control and network management services". We utilise the same definition in our response, acknowledging that these balancing services are delivered via Distribution Network Operators (DNOs) assets/technology.

It is our view that the proposals are juxtaposed to Ofgem's intent for DNOs going forward, who are expected to neutrally facilitate tendering of network and system needs in accordance with Ofgem's Distribution System Operator (DSO) Position Paper¹. Where DNOs are permitted to provide a monopoly service to the Electricity System Operator (ESO) we do not believe that said DNO can have neutrally facilitated such a procurement; we are certainly unaware of any regulatory framework that could ensure that a procurement activity in which the DNO is allowed to participate could be managed by said DNO as a neutral facilitator.

Furthermore, a lack of 'Whole-System thinking' across DNOs was a critique

¹ https://www.ofgem.gov.uk/system/files/docs/2019/08/position_paper_on_distribution_system_operation.pdf

² https://www.ofgem.gov.uk/system/files/docs/2020/01/riio-2_challenge_group_independent_report_for_ofgem_on_riio-2_business_plans.pdf

highlighted by the recent RII02 challenge group², and we believe that encouraging exclusive and monopolistic activities outside of the remit of a neutral facilitator and outside of Price Control mechanisms (such as this proposal) will only exacerbate the issue. Whilst we recognise that the ESO is obligated to procure balancing services without discrimination and a balancing service via CLASS is therefore one of many balancing services that the ESO could select, we have yet to see any analysis that demonstrates that competition amongst balancing services providers would yield less costly provision via CLASS than would be the case where CLASS balancing services are subject to Price Control mechanisms. The Enhanced Frequency Control Capability (EFCC) Project³ made it clear that in lower-inertia systems (e.g. our future market), maintaining system frequency stability will require responses from a wider range of service providers. It is therefore our view that any existing competition believed to exist between different forms of balancing services (to the extent that offerings via one balancing service drive-down prices in other balancing service as is being alluded to here) will only lessen with time as such service providers become subject to regulatory advances that have been seen in the Supply market. Hence we would ask that where evidence exists that different balancing services create a direct, negative affect on the prices of other balancing services (for all of the balancing services that can be delivered via CLASS e.g. including reactive power), it is not only shared but that it is shared in such a fashion as to compare the negative affect on prices in the provision of balancing services via CLASS to those that would be seen under Price Control mechanisms. It is our view currently, that the only way in which real, comparable and demonstrable downward pressure would be affected on the provision of services via CLASS is if that provision were to result from direct competition. Specifically we consider that where (with the relevant safeguards required by DNOs) this service were to be opened akin to the 'Third Party Access' arrangements introduced into Private Networks⁴ and featured in the future Electricity Flexibility Platforms, the procurement of economical balancing services would be much more achievable (for example where the ESO is presented only with information necessary for a neutral selection) and the costs to Suppliers and consequently their consumers would therefore be more reflective of system costs than of balancing service providers profits. As a consequence we feel that this would more efficiently incentivise balancing service providers, than would the existence of other balancing services that provide a different method of system balancing.

Where a 'Third Party Access' arrangement and therefore direct competition is not possible, and costs for the assets utilised by DNOs for the provision of balancing services via CLASS "would have been incurred whether or not DNOs are providing CLASS as a balancing service", then we feel that in order to address the monopolistic nature of the service, Price Control mechanisms must be used to ensure economic and efficient spend. We are in agreement with Ofgem that disallowing this service altogether would reduce the ESO's ability to utilise the widest range of balancing services, and as was highlighted in the EFCC Project, allowing more technologies to access this market will be increasingly important with a lower-inertia system.

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

No.

If it is true that the investment in assets used for the provision of CLASS would have been required regardless of the relevant DNO being able to provide CLASS as a balancing service, then we

³ <https://www.nationalgrideso.com/document/144441/download>

⁴ <https://www.elexon.co.uk/change-proposal/cp1377/>

believe that including CLASS in the price control can only serve to ensure that the relevant investment is efficient because DNOs will have an additional benefit to aim for when making said investment. If all DNOs were able to provide CLASS as a balancing service only within their own area, using their own assets, we cannot see that competitive outcomes would be distorted for the provision of CLASS as a balancing service. In addition, where the ESO is obligated to procure balancing services without discrimination we do not believe there ought to be any negative impact on competition between different balancing services or the relevant providers, especially where flexibility providers are granted increased access to data concerning network and system needs as we understand is Ofgem's vision¹ following on from recommendations made by the Energy Data Taskforce⁵.

We believe that where DNOs are permitted to offer this service it ought to be subject to Price Control mechanisms to ensure that the exclusive nature of the CLASS service does not yield undue profits at cost to consumers. We do not believe it is acceptable for Suppliers and their consumers to have to fund the CLASS infrastructure used for the provision of these balancing services, the balancing service itself, and then pay for any loss the DNO makes (via Distribution of Use of System charges [DUoS]) as is determined by an ESO-DNO contract, outside of any price control mechanism. We note that the second Balancing Services Taskforce is still discussing Balancing Services Use of System (BSUoS) charges, but we believe it likely that the conclusion will be that Suppliers and their consumers are to fund the full costs associated with BSUoS. As such we fully support any impact a price-controlled balancing service may have on reducing the costs of other balancing services with all other things (e.g. data) being equal; as given above however, we are yet to see any evidence demonstrating that the existence of different balancing services creates a direct, negative affect on the prices of other forms of balancing services. For clarity, we welcome competition within the flexibility markets as a means of securing the electricity system during and post the transition to decarbonisation, but where our consumers can benefit from infrastructure that they have paid for we see this as a positive benefit rather than as a disadvantage, even if services similar to those provided via CLASS technology cannot compete because they cannot access the same infrastructure.

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?

As noted above, where 'Third Party Access' type arrangements are not possible, we fully expect increased access to data concerning network and system needs to be provided to flexibility providers as a consequence of the Flexible and Responsive Energy Retail Markets approach⁶, or the DSO Position Paper outcomes.

⁵ <https://es.catapult.org.uk/projects/energy-data-taskforce/>

⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819624/flexible-responsive-energy-retail-markets-consultation.pdf