



Making a positive difference
for energy consumers

Transmission licensees,
Generators, suppliers, and-
consumer groups

Email: dale.winch@ofgem.gov.uk

Date: 22 October 2021

Colleague,

Consultation on minded-to decision for an application for an Electricity Transmission Licence for Mersey Reactive Power Limited (MRPL) for the operation of a shunt reactor

Mersey Reactive Power Limited (MRPL) has applied for a Great Britain (GB) Electricity Transmission Licence ("ET Licence"). This letter sets out the background and context to the considerations and what effects it might have on consumers, and consults on our minded-to position to grant an ET Licence to MRPL. We are inviting comments from interested parties by 22 November 2021.

Please send responses to this letter to Dale Winch at dale.winch@ofgem.gov.uk.

Background

MRPL was awarded the contract to supply reactive power to National Grid Electricity System Operator (ESO) under the Mersey Reactive Pathfinder¹ tender round. It proposes to do this using a 400kV shunt reactor which will be installed on land adjacent to the National Grid Electricity Transmission 400kV substation located at Frodsham in Merseyside. MRPL considers that it requires an ET licence under section 6(1)(b) of the Electricity Act 1989 ("EA89"), to authorise the company to make reactive power services available to the ESO.

Ofgem received an application for an Electricity Transmission (ET) licence from MRPL in September 2020².

Ofgem's view and 'minded-to' position

We have applied our licence application process to assess MRPL's application. We note that this is a novel application for an ET Licence, given that this relates to a single component of the system with a very specific geographic remit.

As set out above, MRPL will be operating a shunt reactor on the transmission system, and this is the activity for which we propose to grant a transmission licence. We consider that this is an activity that requires a transmission licence, because the shunt reactor will be constructed solely to provide the reactive power absorption service that is necessary for the

¹ [NOA Stability Pathfinder | National Grid ESO](#)

² <https://www.ofgem.gov.uk/publications/review-regulatory-framework-ancillary-service-assets-and-clarification-our-short-term-treatment-synchronous-condensers>

correct operation of the transmission system and MRPL will thereby be participating in the transmission of electricity.

Our proposal to grant a transmission licence is subject to our consideration of respondents' views and the satisfactory completion by the applicant of all relevant licensing checks.

At the time the legislation was drafted prohibiting transmission participation without a licence, it was envisaged that a transmission owner would own a substantial part of the network. However, the electricity sector is quickly evolving. It is important that we make timely regulatory decisions using the tools currently available to support the transitional nature of this sector. At the same time, we also recognise that any decisions will need to adapt for the future including the facilitation of competition within the sector. Our minded-to position for this application should therefore be considered a potentially short-term solution, designed to enable flexibility and compatibility with a future licensing regime.

Based on these considerations, we have turned our minds to the points below:

- What should be within the scope of the licence?
- Impacts on consumers

What should be within the scope of the licence?

In making their licence application, MRPL requested that their ET licence is restricted to Standard Licence Conditions (SLCs) A1-A6, B4-6, B8 and B20-21. This is because the licence would only be for the area in which the shunt reactor is sited and for the services that it would provide under a commercial contract with ESO.

We have considered MRPL's request in accordance with Section 8A of the EA89. We are of the view that applying the full weight of the ET Licence regime to MRPL and more generally to the small number of standalone shunt reactor solutions that are arising from the market in response to the ESO's pathfinders would be disproportionate. Therefore, we agree in principle with MRPL's request and are minded to grant MRPL a 'lite' transmission licence. This will include several SLCs which are important for regulating the licence and associated activities. We will also be excluding a number of SLCs in relation to activities that are not applicable to the operation of a shunt reactor on the transmission system, including SLCs relating to price control activities, and others we deem not to be proportionate to operating a shunt reactor solution. We are also not proposing to include any Special Conditions. The SLCs that we are proposing to apply are set out within the Licence Terms in Appendix 1 and justification for those we have excluded is in Appendix 2.

To help mitigate against unintended future consequences, we are proposing to introduce the following limitations on the licence:

Geographical location

We are proposing that the licence is limited to the specific geographical location of the installed shunt reactor (and associated) licensable activities at Frodsham. We consider this important to ensure that the licence is limited in its overlap with existing Transmission Operator licences, and to ensure the licence is applicable only to the operation of the shunt reactor at Frodsham.

We consider there to be a strong public interest argument for applying this limitation to the licence to prevent encroachment into the transmission activity areas of other Transmission Operators. This will mitigate the risk of more than one operator operating on the same site with potentially duplicate infrastructure, activities, and duties, which would result in significant additional costs being borne by consumers.

Licence applicable period

We do not propose to introduce a time-limitation to the licence; however, we are proposing to introduce flexibility within the revocation terms to allow for potential future changes to the licensing regime and for potential situations whereby the activity undertaken no longer requires a transmission licence.

We are proposing to introduce a minimum applicability date, where the licence will be valid for at least the duration of the commercial agreement between ESO and MRPL specified at the grant of the contract. The terms will then allow for the licence to be revoked beyond this period.

- **Do you agree with our minded-to position to grant the ET Licence in this case?**
- **Do you have any views on the SLCs we propose to include in the licence?**
- **What are your views on the geographical and time limitations we have proposed to include in the licence? Do you have any views on any additional limitations that should apply?**

Impacts on consumers

We have considered the impact that granting the ET Licence to MRPL might have on existing and future consumers. We are of the view that the commercial agreement between MRPL and ESO will include appropriate service standards, obligations, access requirements and network requirements. We are therefore satisfied that the commercial arrangements will offer sufficient safeguards that protect consumers' interests, avoiding the need for certain SLCs, whilst providing a service that is necessary for the correct operation of the transmission system. We also consider that there are no significant risks of adverse impacts from granting an ET licence (as restricted above) in this case.

- **What impacts on existing and future consumers, if any, do you anticipate from granting a restricted ET Licence in this and similar instances?**
- **Do you agree that granting an ET Licence in the proposed manner for the case of MRPL (and potential future similar cases) is unlikely to result in any significant risk to consumers' interests?**

We have outlined our intention to undertake a review of the regulatory framework for ancillary services in a separate letter published on 20th October 2021³. In that letter, we set out our intention to consider potential future changes to the regulatory arrangements and provide a clarification on the current regulatory treatment for Synchronous Condensers in relation to generation licences.

Next steps

Please email your response to the following questions to Dale Winch at Dale.Winch@ofgem.gov.uk by 22 November 2021. We will consider all responses before making a decision on MRPL's licence application.

For comments or feedback on the longer-term review of the appropriate regulatory treatment of standalone ancillary services, please refer to the above-mentioned letter for details.

Yours sincerely,

³ [Review of the regulatory framework for ancillary service assets and clarification on our short-term treatment of synchronous condensers | Ofgem](#)

Min Zhu
Deputy Director, RIIO Electricity Transmission