

Dale Winch
Manager, RIIO Electricity Transmission
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

SSE plc
Head Office
Inveralmond House
200 Dunkeld Road
PH1 3AQ

polina.ruthven@sse.com

22 November 2021

Dear Dale

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

SSE's Energy Businesses comprise of the generation assets developed, owned and operated by SSE Renewables, and SSE Thermal; Business Energy, SSE's non-domestic energy supply business; and the distributed energy solutions provided by SSE Enterprise. In this response, the terms "SSE's Energy Businesses", "SSE" and "we" are used interchangeably. For the avoidance of doubt, this response does not represent the views of SSE's Networks Businesses (SSEN Transmission and SSEN Distribution).

SSE welcomes the opportunity to provide its views in response to Ofgem's minded-to decision.

Equal playing field concerns

We acknowledge that the necessity of this minded-to decision by Ofgem is driven by the outcome of the Mersey Pathfinder Tender undertaken by the NGESO and the requirement to provide regulatory clarity, ex-post, to a selected bidder in this tender. However, we question whether the outcome of the tender process would have been different if this regulatory clarity was provided, ex-ante, prior to the tender start, thereby, attracting a wider range of parties to participate in the tender. Similarly, we are aware of an instance where a party was forced to pull out of the Stability Pathfinder Phase 2 tender process due to a lack of clarity (ex-ante) around licencing implications, and associated costs, around their proposed solution. While NGESO's approach of 'learning by doing', we are told by NGESO, leads to potentially more innovative solutions being put forward by market participants, a lack of upfront regulatory clarity clearly results in an unequal playing field for different market participants.

We are also concerned about a lack of transparency and governance in this instance where, following a competitive tender process outcome, further discussions were held after the tender closed between a selected bidder and NGESO resulting in an ex-post bid adjustment, leading to an increased availability fee and the inclusion of a utilisation fee, to cushion the costs unaccounted for by the bidder at the start of the tender process. This seems to be counterintuitive to the competitive nature of the tender process and yet again puts into question the equal playing field afforded to all market participants. It also brings into question the legality of the way NGESO conducts competitive tenders

Classification of dedicated ancillary services assets

SSE plc

Registered Office: Inveralmond House 200 Dunkeld Road Perth PH1 3AQ Registered in Scotland No. SC117119.

Authorised and regulated by the Financial Conduct Authority for certain consumer credit activities.

sse.com

We note that Ofgem's decision precedes the outcome of Ofgem's upcoming review of the regulatory framework for ancillary services assets and as such it sets a precedent for a transmission licence being granted to an entity which owns a single piece of equipment. It is worth highlighting that currently there are other technologies in the market, such as synchronous compensators, which provide ancillary services to the system operator but do not enjoy the regulatory clarity Ofgem is looking to provide in respect of shunt reactors.

It is our view that competition in the ancillary services market could have been improved in the short-term, if as part of its minded-to decision, Ofgem also provided a view on the classification and proposed licensing approach for other technologies, similar to shunt reactors, currently available in the market and competing for service provision to the system operator.

Purpose and scope of transmission licence

- *Licence scope*

Separately, we note that the minded-to decision in respect of MRPL does not highlight any other options considered by Ofgem prior to reaching a decision to grant a transmission licence to this entity. For example, as part of the process Ofgem has gone through to clarify the regulatory framework for electricity storage¹, Ofgem did consider creating a separate 'generation-lite' licence for this type of asset.

Having reviewed the transmission licence conditions Ofgem proposes to make applicable to MRPL, it is evident that a transmission licence in this case would entail a very limited range of licence obligations primarily related to business separation requirements (although the wider legal obligations, placed upon a TSO in law, would remain). This approach evidently creates a sub-class of transmission licensee with limited licence obligations but with the unrestricted benefits of being a transmission licensee, in particular in respect of not paying Final Consumption Levies and other charges, such as network charges.

It is also evident that MRPL will not be exposed to a regulated revenue stream inherent to transmission licensees but will, instead, rely on the commercial contract and an associated revenue stream from NGESO. This is another fundamental difference between existing transmission licensees and MRPL which further supports the case for an alternative licensing approach or additional licence conditions in respect of compliance being applied in this case.

- *Licence purpose*

In light of the above, it seems that the main purpose of granting a transmission licence to MRPL is to ensure that this entity is not exposed to the costs currently being paid by other market participants; such as those which responded to the NGESO tender; with these other users essentially covering the share of the MRPL's costs that would, for example, arise from MRPL paying Final Consumption Levies and other charges, such as network charges. It is also evident that, given the proposed limited scope of the transmission licence conditions, that the terms and conditions contained in the commercial contract with NGESO will provide the basis to enforce compliance with the requirements of the contract. This, in our view, somewhat undermines the purpose and nature of licensing and further puts into question the approach adopted by Ofgem to reach its minded-to decision to grant a transmission licence to MRPL.

¹ [Clarifying the regulatory framework for storage: licensing](#)

Scope of the ancillary services review

Finally, we welcome Ofgem's intention to undertake the review of the regulatory framework for ancillary services assets. However, we urge Ofgem to extend the scope of this review by not limiting it exclusively to the assets *dedicated* to ancillary services provision.

It is clear that the ongoing fundamental changes in the market as a result of the Net Zero agenda drive a requirement for new grid services and new ancillary services solutions. However, it is essential to note that these services can be provided not only by new dedicated assets but also existing generation assets subject to minor adjustments and conversions. In the latter instance, it will be important to ensure that these existing assets that can provide services to the system operator on a competitive basis, are not disadvantaged by *both* a lack of flexibility in the existing regulatory framework *and* increased regulatory flexibility afforded only to new market participants as this leads to higher costs to consumers. We will be engaging with Ofgem's team leading on the ancillary services review to highlight specific scenarios that should, in our view, be included in the extended scope of the ancillary services regulatory review.

Yours sincerely,

Polina Ruthven

Regulation Manager, Generation and Wholesale Markets