

23 March 2020

Please find below GridBeyond's responses to the Ofgem consultation "**Regulatory treatment of CLASS as a balancing service in RIIO-ED2 network price control**".

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

Ofgem should consider placing a floor on the prices which CLASS units are permitted to bid into competitive auctions and tenders. Regulated price floors would recognise the differences in risk taken by different parties in the market and would negate much of the potential for market dominance of monopoly-based parties.

Ofgem have stated that DNOs should not be able to make use of their monopoly position. Ofgem conclude in Appendix 2 that: "*The ability and incentives for the DNO to gain market power or abuse its monopoly position as network operator low.*" We do not agree with this position.

Permitting CLASS to participate in the Balancing Services markets will permit DNOs to leverage their monopoly positions.

- A provider offering a CLASS-based service does not have to acquire customers in the way that a DSR Aggregator must
- They do they have to invest in the construction of the asset or arrange and pay for a connection to the system as a battery- or generator-based provider would have to.
- Some upgrades must be made to existing assets, but the upgraded technology was paid for via a LCNF project.
- Market risk and performance risk do not sit with the DNO as provider, but are shared with a monopolised customer base.
- CLASS projects are not paying for the power flowing through their assets.

We also note that engagement with aggregators can leverage a consumer's flexibility potential. Provision of a balancing service provides a consumer with the capability to offer other services, as well as the capability to manage their consumption against signals other than frequency and National Grid instructions, such as the wholesale price or the imbalance price. As participation in CLASS does not require any engagement with the CLASS provider, National Grid and the electricity





system as a whole, will potentially lose a large pool of general flexibility by crowding out other balancing service providers.

The conditions set out above do not reflect a true level playing field. A price floor for CLASS projects in any balancing services market may see to it that Third Party solutions can compete on a level playing field and experience the same levels of market risk as a monopoly-party.

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

The inclusion of CLASS as a participating technology within the suite of Balancing Services would undermine the integrity of those markets. The potential volumes of service deliverable by CLASS installations across the GB network may dominate the markets and terminally reduce competition. It is unrealistic of Ofgem to assume that the DNOs will not leverage their monopoly position to dominate balancing services markets. Other technologies – and therefore National Grid’s access to other technologies – may be permanently driven out of the markets.

**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)?**

Customers under a CLASS unit do not have to be consulted about whether they provide a service or not. This is fundamentally different to the situation facing other balancing services. Service contracts must be agreed and risks agreed and understood. CLASS providers would not face the full cost of any failure in the market, and therefore the risks they face in market are asymmetrical to those of other providers. Artificially lower risks will mean artificially lower prices. Other providers unable to pass on risks to regulatory price control mechanisms may be pushed out of the market.

Ofgem should recognise these risks and build them into the options for a CLASS provider.

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

GridBeyond does not have a view on this question

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

GridBeyond agrees with Ofgem on this point. Including CLASS in the price control would destroy the balancing services markets and severely restrict National Grid’s access to alternative balancing technologies. No available markets would mean zero incentive for consumers or generators to offer flexibility to National Grid meaning a loss of existing capability on the system.



Transform energy demand  
into opportunity

GridBeyond Limited is a company registered in the United Kingdom. Registered number: 08211691.  
Registered office: 54 Clarendon Road, Watford, Hertfordshire, WD17 1DU.

**Q6. Do you have evidence CLASS could affect the likelihood of system reliability issues?**

We have no evidence to offer on this point, but the observation that if CLASS providers were to dominate the market for balancing services then the volumes of flexible assets needed to respond to a system issue would be severely curtailed. We direct Ofgem to the detailed response provided by the ADE on this point.

**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 disagree with Ofgem's position that DNOs would not have market power in the future. The DNOs own the assets capable of delivering CLASS services, they do not pay for the power flowing through those assets, they do not have to acquire any customers or obtain any customer permissions, they have to install some upgraded equipment to assets they already own and control, and they face vastly reduced market risk compared to all other market participants.

ENW reported in March 2020 that they have installed CLASS equipment on 251 out of 260 potential transformers, and that they are confident of being able to deliver 90 MW from their network.

They also reported that ENW sees ~8% of the flows of power on the GB network, meaning that if ENW's 90 MW was to be scaled up nation-wide the DNOs could offer in the range of 1,200 MW of balancing services.

The SQSS requirements are for ~1-1.3 GW of frequency response volume to be held at any one time. Of this, the markets open to non-BM providers: the Monthly FFR market procures 250MW-350MW of service per month, and; the weekly FFR Auction 100-200 MW of Dynamic and Static services. Between May 2018 and August 2019 ENW offered between 8 and 40 MW of Static Firm Frequency Response services in the ESO's Monthly FFR tender market. Between November 2019 and January 2020 ENW offered 50-70MW into the ESO's Fast Reserve market.

These volumes indicate a growth in volume which implies that the DNOs could potentially very easily saturate these markets and displace other providers at very little risk. Competition would evaporate and markets would offer very little by way of diversity.

Providing a diverse base of service providers is key to maintaining system stability. Geographically diverse and technologically diverse services provide the ESO with a much more robust defence against sudden system shocks. Single large points of failure have been the cause of the last two major system-wide shocks to the GB grid – in May 2008 and August 2019. Diverse and distributed balancing services contribute to a robust defence against system shocks. The overrunning of the markets with CLASS services would remove much of this diversity and therefore much of its benefit.





**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?**

Normal market participants do not have access to ESO planning decisions, or to the ESO control room activities or forward procurement plans. This information should be opened up. DNOs have access to discussions, engagement, and potentially insider information about grid procurement and planning, none of which is open to normal market participants. All such access and information should be open to all market participants.

**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?**

In this case, the ESO would need to publish the same network planning and operations data, including their procurement strategy for reserve and response, to the entire market that they share with the DNOs.

**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?**

We reiterate our concerns about the monopoly positions of DNOs, and refer to our previous answers.

**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?**

GridBeyond do not think that the existing safeguards are sufficient. More focus on the impacts on competition law should be provided by Ofgem on this matter.

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

We refer to our reply to Q1.

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

The risks of monopoly actions by the DNOs have been drastically understated by Ofgem. The risks that CLASS providers will severely negatively affect FFR and Fast Reserve markets is a concern not adequately addressed by Ofgem.



Transform energy demand  
into opportunity

GridBeyond Limited is a company registered in the United Kingdom. Registered number: 08211691.  
Registered office: 54 Clarendon Road, Watford, Hertfordshire, WD17 1DU.



GridBeyond™



Transform energy demand  
into opportunity

GridBeyond Limited is a company registered in the United Kingdom. Registered number: 08211691.  
Registered office: 54 Clarendon Road, Watford, Hertfordshire, WD17 1DU.