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Regulatory treatment of Customer Load Active System Services (CLASS) as a balancing service in the RIIO-ED2 price control

About RenewableUK

RenewableUK's members are building our future energy system, powered by clean electricity. We bring them together to deliver that future faster; a future which is better for industry, billpayers, and the environment. We support over 400 member companies to ensure increasing amounts of renewable electricity are deployed across the UK and to access export markets all over the world. Our members are business leaders, technology innovators, and expert thinkers from right across industry.

Achieving the UK's legally binding net zero will mean the deployment of renewable energy must increase at a significant and consistent rate over the coming decades. National Grid most recent Future Energy Scenarios¹ show that renewable capacity will need to more than double by 2030 and will require at least 1.07GW of onshore wind to be built every year from now until 2050 while the Government has committed to the deployment of 50GW of offshore wind by 2030. Achieving this will require all parts of the energy system to align in delivering net zero that provides best value for consumers. The renewable energy sector continues to be in a position to play the most cost-effective role in delivering a net zero pathway, decarbonising the power sector, and providing the solution to challenging issues within heating and transport.

In light of the COVID-19 pandemic and the significant impact of the energy price crisis, the Government has recognised the need to stimulate economic growth in a sustainable and

¹ National Grid ESO, 'Future Energy Scenarios', July 2021 <https://www.nationalgrideso.com/future-energy/future-energy-scenarios/fes-2021>

resilient way. Clean infrastructure investment in renewable energy, storage, and grid modernisation, has been identified as an area that can play an important role stimulating economic growth and security of supply². We must steer a recovery that drives vital new economic activity, accelerates our transition to net zero and strengthens our resilience to the impacts of climate change.

RenewableUK welcomes the opportunity to respond to the consultation on regulatory treatment of Customer Load Active System Service (CLASS) as a balancing service in RII0-ED2 network price control. Of the options presented in the consultation, RenewableUK would select **option 3 (CLASS is prohibited)**.

While not Ofgem's preferred option, RenewableUK believes that DNOs should not be allowed to participate in ESO balancing services and that it offers the best option to avoid detrimental impacts to investment in market-based flexibility during the next electricity distribution price control period. We urge Ofgem to consider our concerns outlined below with the preferred way forward and take timely action when the decision on the treatment of CLASS is published this summer.

In the past, barriers have excluded clean energy resources from providing balancing services. However, this has started to change with renewable energy technologies capable of providing frequency control and supporting system strength. Over the course of RII0-ED2 and the upcoming 5 years, we will need market design for balancing services which can harness market-based innovation to be able to decarbonise further and faster. Continuing with the existing policy (option 1) will impact both suppliers and generators progress towards investment in net zero technologies and market-based flexibility during a time the current suite of ESO balancing products is undergoing a period of essential reform. In making their decision on the regulatory treatment of CLASS as a balancing service we feel Ofgem have focused on the short-term value to consumers, while putting little weight on the longer term impact this decision could have on net zero investment in market-based flexibility.

We have serious concerns about the implications of Ofgem's minded-to decision to market-based innovation in flexibility. Both the consultation and associated impact assessment have not properly considered the impact of CLASS used in balancing services to market participants decisions to invest in flexible technologies. *What assessment has Ofgem carried out to demonstrate the impact on market-based investment in flexible assets (residential demand-side response, storage and renewables providing balancing services) from wider use of CLASS as a balancing service?* This is particularly concerning as CLASS technologies are able to meet the requirements of a suite of ESO response, frequency and reactive power products as demonstrated in Table 6 in the accompanying impact assessment.

We also feel that Ofgem has not properly considered alternative uses for CLASS, for instance use of CLASS by DNOs to help manage their own network. DNOs core function during the next price control should be to enable the transition to net zero, for instance by providing timely connection to new distribution-level resources. The focus of DNOs should not be on participating in national level balancing service markets. *What assessment has Ofgem carried*

² BEIS, 'British energy security strategy', April 2022 <https://www.gov.uk/government/publications/british-energy-security-strategy>

out to evaluate alternative uses of CLASS?

As part of Ofgem's regulatory treatment of CLASS, it is important that Ofgem offers more clarity around how it intends to monitor DNOs market power. Currently, the industry feels that the existing safeguards against DNOs taking advantage of their DNO role in the context of participating in the balancing markets with CLASS are not sufficiently robust. Any action taken to address the market power of DNOs is going to be post-event and does not improve industry confidence. *What assessment has Ofgem carried out to demonstrate the costs and benefits from direct and indirect competition of network vs commercial providers of flexibility?* The evaluation of network and market solutions requires a level playing field as far as possible.

RenewableUK believes **option 3** of prohibiting use of CLASS as a balancing service is a feasible strategy. DNOs could still be incentivised to invest in CLASS technologies to manage their own network as CLASS could also offer a temporary alternative to reinforcement across distribution networks by managing voltage to reduce peak consumption.

The proposed regulatory treatment of CLASS in RIIO-ED2 could have significant implications to investor confidence in market-based flexibility innovation. RenewableUK believes that DNOs should not be allowed to participate in ESO balancing services. By making the right decisions now we can ensure that RIIO-ED2 facilitates the journey to meet net zero while delivering long-term value for money and a green economic recovery.

We would welcome the opportunity to discuss further with Ofgem any of the comments raised in this letter. If this is of interest, please do not hesitate to get in touch.

Yours Sincerely

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