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Dear Mike,

Scottish and Southern Electricity Networks (SSEN) response to Ofgem's consultation on the regulatory treatment of Customer Load Active System Services (CLASS) as a balancing service in the RIIO-ED2 price control.

In the transition to net zero consumers need to have access to the broadest range of technologies and services to enable delivery at the lowest possible cost. CLASS has the ability offer consumers significant advantages and we support deploying it across the system. In our [RIIO-ED2 business plan](#) we signalled an estimated ability to deploy CLASS on over 650 transformers, noting further study is needed with the Electricity System Operator (ESO).

Enabling net zero at lowest costs requires our stakeholders to trust the decisions we take as a Distribution System Operator (DSO). Our RIIO-ED2 plan and [DSO Action plan](#) is centred on being a neutral market facilitator. We highlight the steps we are taking and engagement we are committed to in being fully transparent in our decision making.

We welcome Ofgem's latest consultation on CLASS, especially the comprehensive Impact Assessment. Considering this additional information and our commitment to neutral market facilitation we are updating our previous position to agree with Ofgem's minded-to position in this recent consultation. We believe CLASS is in consumer's interest and supports delivery of net zero. The following paragraph on page four of the consultation summarises our view well:

"To be clear, as new roles are required to deliver effective distribution system operation (DSO), our starting position is that DNOs should not undertake activities that can be performed by third parties. However, the circumstances in this case lead us to conclude that it is in the consumer interest to take an alternative stance; only DNOs can provide CLASS and our updated assessment suggests that the net economic benefit is likely to be significant. Prohibiting CLASS would narrow the set of choices available to the ESO and mean consumers faced higher electricity bills than they might otherwise do."

In Appendix A to this letter we provide specific responses to the consultation questions. Thank you for taking time to consider our response and please feel free to contact me to discuss any aspect.

Yours sincerely,

Chris Harris
Regulation Manager

Appendix A

- 1. Do you agree that the approach taken in our Impact Assessment is proportionate and balances the trade-offs between the scale of expected impacts and the cost of doing further analysis relative to the benefits such analysis may yield?**

The scope of costs and benefits for each option considered within the CLASS Impact Assessment is thorough; the underpinning assumptions for these costs and benefits are credible; and the deployment scenarios considered are proportionate.

- 2. Do you agree that our sensitivity analysis captures a reasonable range of uncertainty over the likely costs and benefits of deploying CLASS as a balancing service?**

The summary assumptions tested within the sensitivity analysis, as per table 4 in Ofgem's Impact Assessment are credible and reasonable in the context of Option 1A (the only option for which they are applicable). We do however believe that Ofgem and NERA should develop and apply sensitivities for the other options considered for the treatment of CLASS (i.e. Option 1B and Option 2). The reasons for not doing so have not been articulated in any of the assessment reports. We believe this will enable a fully rounded conclusion on the relative benefits of Option 1A to be reached.

- 3. Do you agree that it would not be proportionate for Elexon to work with industry to develop a solution to adjusting supplier imbalance positions via the Modification process in response to CLASS activations at this stage?**

Yes, we agree. The analysis set out in paragraphs 4.109-4.117 credibly demonstrates the aggregate impact of CLASS on settlement cashflows is likely to be limited. We believe the additional costs and time for Elexon to work with industry is prohibitive and contrary to consumer interests once adjustments are applied for systematic supplier over procurement and protective hedging strategies.

- 4. Do you agree with our assessment that there is no evidence that competition is currently being distorted or impeded by the participation of CLASS?**

Ofgem's assessment of the historical impact of CLASS' participation in the market for balancing services is based on the ENWL test case and clearly shows allowing CLASS into the balancing services market resulted in a positive outcome for consumers. On the projected future impact of CLASS' participation in the market for balancing services we agree with the conclusions, as set out in consultation paragraphs 3.43-3.48, from the analysis undertaken by Ofgem that "*achieving a high percentage share of supply for one service or more alone is not evidence of abuse of dominance nor harm to consumers*"; and also that Ofgem and the CMA have powers of investigation and enforcement "*should abuse of dominance or anti-competitive behaviour arise*".

5. 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?

Yes, existing safeguards are sufficient. The rationale and analysis outlined by Ofgem is comprehensive and credible in reaching this conclusion.

6. What additional measures do you think would be effective and proportionate to address actual or perceived conflicts of interest with respect to CLASS?

We do not believe additional measures are required. As per our response to question five we believe existing safeguards are sufficient and well justified.

7. Do you agree that our minded-to position provides the most efficient incentive for CLASS's participation in balancing services?

We agree. It is important for Ofgem to balance the value CLASS can offer consumers in reducing the cost of delivering net zero alongside the neutral market facilitation role DNOs must undertake in the execution of the DSO role. On balance we believe in this specific circumstance it is in consumer interests to allow CLASS to participate in the ESO's markets for balancing services and for the costs to be remunerated as a DRS.

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

Not fully. We accept Ofgem's minded-to position to allow CLASS assets to participate in the balancing market and treat revenue as a DRS is based on a good case demonstrated by the latest information in the Impact Assessment. However, we don't fully accept the assertion that funding CLASS in the price control would not promote efficient investment signals and could distort competitive outcomes. This is principally because we believe Ofgem has not spent sufficient time considering how the option of Price Control funding could be adapted to work through innovative and new ways to overcome perceived limitations. For avoidance of doubt this does not dilute Ofgem's minded-to position, but it would be remiss to acknowledge that the option of the price control has been fully exhausted and all options for its operation fully tested.

9. What additional reporting or monitoring in RIIO-ED2 could be valuable to assess the ongoing impact of CLASS? Please explain how Ofgem, the DNOs or any other party would be required to support the proposed measure.

We do not believe additional reporting is required outside the standard reporting required by balancing market participants, the ESO, and standard reporting of DRS revenue by DNOs within regulatory periods.