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Dear James,

Call for Evidence – Review of the arrangements for electricity ancillary services

Thank you for the opportunity to contribute to the call for evidence on the arrangements for ancillary services¹. This response is on behalf of National Grid Electricity Transmission plc ("NGET"). In this response we have provided our views of how the arrangements can be made more transparent and provide certainty and clarity for existing and new ancillary services providers. Greater clarity in the treatment of ancillary services provision would also support a more innovative and competitive market, whilst still protecting the interests of current and future consumers as we support the transition to a net zero system.

NGET supports the introduction of competition where it can be robustly demonstrated that it is in the long-term interests of end consumers, including not delaying progress in reaching established net zero ambitions. When we consider the interests of consumers, we consider not only short-term cost, but also system reliability and sustainability, and the costs that will be borne by future consumers². As we have seen in a number of areas of the energy sector, particularly more recently on the supply side, a balance needs to be struck between encouraging new entrants to relevant markets and protecting the interest of current and future consumers.

Given the critical role that ancillary services play in supporting security of the electricity system, we consider that relying only on a contractual relationship as between the provider and the ESO (to the exclusion of appropriate regulatory oversight) would not be appropriate. End consumers ultimately bear the consequences of service, market and asset failure, in terms of both cost and security of supply. Therefore, Ofgem should put in place appropriate licensing arrangements in order to provide it with suitable regulatory oversight of ancillary service provision and to protect end consumers rather than leaving this solely to the commercial arrangements between the ESO and the service provider.

Historically, providers of ancillary services would have generally been licensed under a generation licence. We agree that the distinction between licensable activities such as generation, transmission

¹ Ofgem clarified the CfE is referring to zero MW stability and voltage service provision, similarly this response covers these areas.

² The current Pathfinders only have a horizon of 10 years, comparing this to a 40 year asset life introduces a risk of increased overall lifetime costs for consumers once the initial 10 year period expires.

etc. is becoming less clear as we move to a decarbonised energy system and that the current licensing regime was not designed for a world where there would be providers of dedicated ancillary services.

A more general point is around the implementation of pathfinders and ‘learning by doing’. Whilst we support the use of innovation in delivery of services, we do not believe it is appropriate to “learn by doing” when the arrangements in question relate to critical national infrastructure. The implementation of pathfinders to date has been neither agile nor innovative and has created several instances that have required quite fundamental policy decisions to be made at haste, particularly around the requirements in the industry codes. Therefore, as part of the review of arrangements we would suggest that the connection and despatch arrangements need to be considered to avoid unforeseen and unintended consequences. With such forethought and planning there could be some wins that make the arrangements simpler to implement for providers, the ESO and TOs.

Recent decisions, such as continuing to grant the operators of synchronous condensers generation licences and issuing Mersey Reactive Power Limited (MRPL) with a transmission licence evidence the shortcomings of the current licensing regime, which does not consistently nor adequately cover the solutions and technologies being deployed on the system today. We reiterate our previous submissions that the decision to grant MRPL a modified transmission licence was not, in our opinion, appropriate and so undermined the robustness of the transmission licence regime and we are pleased that Ofgem does not see this as setting a precedent for similar scenarios in the future.

Therefore, our view is that some form of new categorisation of licensable activity associated with ancillary service provision³ would be most appropriate to balance the need to promote competition, but also protect end consumers. We recognise that such an approach would require legislative change. This would also ensure that providers were obliged to become parties to the appropriate industry codes that have been designed for market participants, including the CUSC and Grid Code. We do not consider it a disproportionate regulatory burden, especially if the number of parties providing dedicated ancillary services increases. It is important that the provision of ancillary services is done in a safe and secure manner, and with appropriate regulatory accountability and enforcement measures. We note that many ancillary services are ‘locational’ and therefore it could be possible for an ancillary service provider to exert locational market power. This further reinforces the need for such service provision to be properly regulated.

An important point that discussion around licensing should conclude is the default arrangements should the service provider financially fail, particularly given the debt ratio that such a provider is likely to employ. We believe provision should be made for suitable take over of the relevant asset to ensure continued compliance of the GB transmission system under such a circumstance.

We note that creating a new category of licensable activity will have industry code implications, as well requiring primary legislation i.e. industry codes are drafted and generally applied on the basis of licensed activity category which would need to be expanded. Given the fundamental importance of these services going forward and their critical nature to the safe, secure and economical operation of the system we believe this is proportionate.

Finally, the call for evidence questions whether the boundaries of roles and responsibilities need clarifying; citing confusion from some stakeholders about the boundaries of responsibility between the ESO and TOs under the SQSS to ensure the system is planned in line with security standards. We agree this is an issue, although believe this is more relevant to the longer-term implications of introducing competition in transmission rather than the provision of ancillary services. We do not believe

³ The scope of applicable Ancillary Services may need to be extended beyond voltage and stability to allow for future flexibility.

separate licensing arrangements for dedicated ancillary services is relevant to this issue and therefore not something that should be addressed in this call for evidence.

We hope these comments are useful in your consideration of alternative arrangements for electricity ancillary services. Please do not hesitate to contact me if you require any further information.

Yours sincerely,

[By email]

Patrick Hynes

New Infrastructure Regulation Manager, National Grid