



Lauren Jauss
Market Development Manager
RWE Supply & Trading GmbH
Whitehill Way, Swindon SN5 6PB
Tel: +44 7825 995497
lauren.jauss@rwe.com

31 May 2022

James Hill,
Policy Manager
ESO Regulation
Ofgem
ESOPerformance@ofgem.gov.uk

**Response to Ofgem's Call for Evidence –
Review of the arrangements for electricity ancillary services**

Dear James,

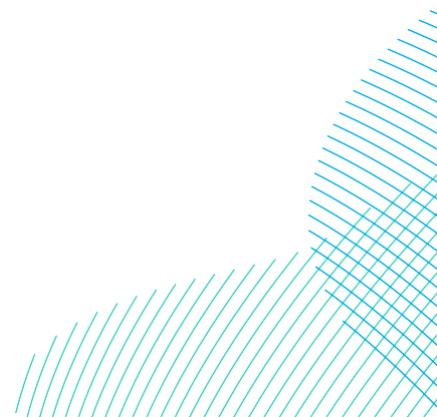
RWE welcomes the opportunity to respond to the Ofgem Call for Evidence on “Review of the arrangements for electricity ancillary services” published on 8th April 2022. I am responding on behalf of RWE Supply & Trading GmbH and RWE Generation UK plc.

Please find our full response in Annex 1 below. If you have any comments or wish to discuss the issues raised in this letter, then please do not hesitate to contact me.

Yours sincerely,

By email

Lauren Jauss, Market Development Manager



Annex 1

Response to Ofgem's Call for Evidence – Review of the arrangements for electricity ancillary services

Objective and scope of review

1. Do you agree with the objective and scope of our review? Are there any other relevant issues we should consider?

Ofgem should also consider recommending a clarification or redrafting of the licencing arrangements to ensure that they extend to allow for the operation of high voltage equipment where on-site electricity demand, including hydrogen electrolyzers, is to be co-located with generation and/or transmission assets.

It is not clear whether the operation of on-site electrical plant is provided for in the Generation Licence where it is used to meet on-site electricity demand if this type of equipment is not directly related to the generation of electricity. It would appear that a Transmission Licence may be required, but due to unbundling rules this is not an option for Licenced Generators. Therefore, we believe the extension of the Generation Licence to clearly allow for the operation of all electrical plant on a generation site would for example remove a key barrier to the development of hydrogen electrolyzers co-located with generation. The co-location of generation and demand would help to alleviate the problem of long queues for a transmission connection, and make access to the Transmission Network more efficient.

2. Table 1 summarises the key dedicated ancillary service technologies and the ancillary services that they provide. Do you consider other technologies as capable of providing dedicated ancillary services? If so, please indicate what services they can provide.

We believe that there are multiple potential alternative technology configurations that could be dedicated to the provision of ancillary services (AS) that have not yet been properly explored. We also believe that the licencing, operational and charging requirements should be the same for dedicated AS as non-dedicated AS (i.e. active power generators) in order to achieve the most cost efficient outcome for the whole system.

Level playing field issues

3. What are the barriers to commercial dedicated provision of ancillary services?

The main barrier in our view is the lack of a market to procure ancillary services. The only route to market at the current time is through stability pathfinders.

It appears that the TO can currently choose to install electrical equipment itself to manage system stability, or procure this service. We think the provision of this type of service should always be open to all potential providers.

4. Should assets dedicated to providing ancillary services receive regulatory funding, be commercially provided, or should there be a combination of the two?

We are not aware of any cost / benefit market externalities that would justify regulatory funding and we believe these services can be commercially provided. If dedicated service providers received funding whilst non-dedicated providers did not, this would also be unlikely to result in a cost efficient system outcome.

5. On an enduring basis, should electricity consumed solely to provide an ancillary service be exposed to the costs, charges and levies that consumption of electricity in general (such as final demand) is exposed to? Please provide details to support your position, such as the magnitude of the impact to your business, and the impacts on competition and energy consumers more widely.

No.

Dedicated AS providers should compete directly with active power generators providing ancillary services whose imports are treated as non-Final Demand. Imports of dedicated AS providers should be charged similarly.

6. Are any other changes to the licensing and charging regime needed which could better enable competition that drives down prices for the dedicated provision of ancillary services and why?

Yes.

It is not yet clear whether certain dedicated AS providers will be licenced as generation or transmission. The application of unbundling rules in GB do not allow one entity to operate a site requiring both a transmission and a generation licence. Therefore, in order to facilitate competition, it is important that licencing arrangements allow for the co-location of active power generation assets and dedicated AS assets owned by the same entity, for example by allowing for the licencing of any dedicated AS asset under a generation licence.

7. Are there any other existing disadvantages between different providers of ancillary services that need to be addressed and why?

No further comments

Licensing arrangements

8. Should the dedicated provision of ancillary services be a licensed activity?

Yes.



We think that entities that operate high voltage equipment should be licenced to ensure safety standards are adhered to and also to ensure a level playing field with respect to market obligations.

According to the Electricity Act 1989, it appears that the operation of high voltage equipment which is not a generating station could fall under the definition of a transmission system, for which there are no licence exemption arrangements. Therefore, under current legislation, a dedicated AS provider might need either a generation licence or a transmission licence. We think that the licencing requirements need clarification and/or updating anyway.

a. What are the benefits and risks for consumers and other stakeholders of assets dedicated to providing ancillary services being provided solely through Transmission Owner (TO) ownership?

We think that this approach would not effectively facilitate competition and cost efficiency.

b. What are the benefits and risks for consumers and other stakeholders of assets dedicated to providing ancillary services being provided only through commercial ownership?

We think TOs and Generators should be able to compete directly and as transparently as possible for the provision of these services.

c. Would different licensing treatment for assets dedicated to providing ancillary services present any challenges? For example, with TO-owned assets licensed under their electricity transmission licence and commercially owned assets under a different (or no) licence.

Given unbundling requirements, and the possibility for transmission system operators and generators to operate dedicated AS assets, we think it is likely to be necessary to allow for different licencing arrangements for the same technologies. One solution could indeed be to give dedicated AS providers the option to operate under either a transmission or a generation licence.

d. What would be the impact of each of these options on competition?

We are unsure at this stage.

9. Do you think that the dedicated provision of ancillary services should fit within an existing licence category as an enduring solution? If not, how should this activity be best categorised within the licensing framework?

Yes.

Please see answer to Q8c.

Roles and responsibilities

10. Do you think there is enough clarity around existing roles and responsibilities in the

provision of ancillary services?

No.

However, we think the FSO will be well placed to help facilitate more optimal arrangements for example by setting up more transparent markets for the provision of AS.

11.Are changes to arrangements needed to clarify responsibilities? If so, what changes are needed?

See Q10.

