



Review of the arrangements for electricity ancillary services

Sembcorp Energy UK's response

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Thank you for the opportunity to engage on the future of assets dedicated to ancillary services, as they present a vital part of the electricity system in achieving Net Zero.

Context

Sembcorp Energy UK (SEUK), a wholly-owned subsidiary of Sembcorp Industries, is a leading provider of sustainable solutions supporting the UK's transition to Net Zero. With an energy generation and battery storage portfolio of nearly 1GW in operation, our expertise helps major energy users and suppliers improve their efficiency, profitability, and sustainability, while supporting the growth of renewables and strengthening the UK's electricity system. Our Wilton International site, within the Teesside Freeport, sits amongst a hub of decarbonisation innovation. At the site, we provide energy-intensive industrial businesses with combined heat and power (CHP) via our private wire network that supplies electricity generated by gas and biomass. These services are complemented by our fleet of fast-acting, decentralised power stations and battery storage sites situated throughout England and Wales. Monitored and controlled from our central operations facility in Solihull, these flexible assets deliver electricity to the national grid, helping to balance the UK energy system and ensure reliable power for homes and businesses.

Response

The current electricity industry is based solely around the provision of energy through active power. With the historic mix, ancillary services and other aspects of network safety (inertia, reactive power, etc.) did not need to be explicitly recognised. There is currently no market for non-energy ancillary services and so schemes like Pathfinders and subsidised contracts with the ESO are essential.

We agree that assets that provide ancillary services should not be subject to Final Consumption Levies (FCL) and other import charges, as the costs are recovered from the ESO and ultimately passed through on to end consumers. As necessary for system safety and security, providers of ancillary services are not 'Final Demand' nor are they consumers, in the traditional sense. Licensing these assets would provide Ofgem with the tools to ensure they are being charged fairly and a 'minimal' licence would not be an undue burden. A new licence type may be easier to understand, and compare across technologies, than a series of modified existing licences, which are based on technology rather than use by the system. This also has the potential to be the most future-proof, as it could encompass new technologies as they emerge.

Ideally, an open transparent market would provide the best price discovery, and therefore best value for money for end customers, rather than regulated funding. For a market to be successful, there needs to be





suitable competition and that will take time to develop. It is vital that competition between market participants is fair, in that all parties who are capable of providing the relevant services have the option to participate. A level of regulated funding could provide investor certainty and the funding could reduce as more assets that provide competition develop. Investor risk is currently a barrier to developments of these assets, as it not clear how services will be procured and so associated revenues. A fully regulated funding model would largely allay these concerns but could result in either: the absolute minimum, at the lowest overall cost but with no ability to absorb changes quickly, or built-in estimated headroom at full cost, which is less economically efficient. A 'baseline' revenue of regulated funding would keep market costs down, give investors some security and allow the market to find the optimum build level. Any regulated funding, whether in full or partially, must be transparent and open to industry, with consumers' best interests at heart.

We agree there is scope for confusion between the ESO and the TO, although the SQSS and its modification procedure are open to industry. The confusion could develop from the fact that there are ESO-led and TO-led solutions, and it is not always clear how decisions were costed or made. We note that there have been significant improvements to the Network Optimisation Assessment process, where ESO-led and TO-lead solutions are compared against forecast system needs in a way that is accessible to industry. Similar comparison documentation could be developed for system needs.

If you wish to discuss our response further, please get in touch.

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