

Energy UK
Charles House
5-11 Regent Street
London, SW1Y 4LR

27/11/2017

Dear Chiara,

RE: Energy UK response to Enabling the competitive deployment of storage in a flexible energy system: changes to the electricity distribution licence

Submitted via email

Energy UK appreciates the opportunity to respond to this consultation. Energy UK is the trade association for the GB energy industry with a membership of over 90 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry from established FTSE 100 companies' right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 26 million homes and every business in Britain. Over 619,000 people in every corner of the country rely on the sector for their jobs with many of our members providing lifelong employment as well as quality apprenticeships and training for those starting their careers. The energy industry adds £83bn to the British economy, equivalent to 5% of GDP, and pays over £6bn in tax annually to HMT.

Energy UK Key points

Energy UK believes that:

- As well as not being able to operate storage, DNOs should not be automatically enabled or allowed to own storage in any circumstance.
- Any licence modifications should include all intended changes around ownership of storage, rather than allowing uncertainty to continue through omission.
- All stages of the process, including but not limited to licence applications, accepted exemptions for storage, review periods, and procedural developments, should be transparent in order to maintain market integrity.

This response underpins Energy UK's position on the proposed amendments to the generation licence. This is a high-level industry view; Energy UK's members may hold different views on particular issues. We would be happy to discuss any of the points made in further detail with Ofgem and other interested parties if this is considered to be beneficial.

If you have any questions please contact Energy UK using Charles.Wood@Energy-UK.org.uk.

Kind Regards,
Charles Wood

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2. Proposed new condition in the electricity distribution licence

Question 1: Do you agree that the proposed new condition will ensure legal unbundling of DNOs from the operation of storage that benefits from an exemption to hold a generation licence?

In the view of Energy UK, the measures outlined do not go far enough to ensure unbundling of DNOs from operation or ownership of storage asset. As well as not being automatically able to operate storage, Energy UK members firmly believe that DNOs should not be enabled or allowed to own storage in any circumstance. Only in certain circumstances would Energy UK support *operation* of these assets, or preferably directing the operation of storage assets by third parties, for a limited time, by DNOs and in these circumstances, for example operation of generation or storage for UPS etc., Energy UK would still not support ownership of these assets by DNOs.

If, as stated in the consultation, the goal is to eventually go further than the measures laid out in the European Clean Energy Package by disallowing ownership of storage assets by DNOs, then why not do so now and actively take the lead in this area? This process of changing the licencing arrangements for storage is an opportunity to quickly resolve *all* issues surrounding energy storage classification, and should be utilised effectively to avoid extended periods of uncertainty. Without this, there is a possibility that there would be increased network investment in storage in the interim, due to the knowledge that opportunities for this will be removed at some point in future. Given the additional access to knowledge on 'heat maps' and constraints that Network Operators possess, this could result in deployment of storage assets at the sites with the best market value before the exploration of market options is required.

There is adequate competition in the UK energy storage industry to enable the procurement of flexibility services through market-based competitive processes, which would be liquid enough to bring forward cost-effective solutions without DNO intervention. DNOs should in any case not be allowed to direct or operate storage assets unless all feasible market-based options from 3rd parties have been exhausted.

There are some concerns from Energy UK members over the drafting of Condition 43B, as it currently only refers to generation assets, rather than addressing storage in particular. Whilst this implies energy storage, we would ask that this be edited to ensure that the condition is explicitly inclusive all aspects of generation, including storage.

Question 2: Do you agree that the same principles of unbundling should apply to IDNOs?

Yes, Energy UK that these principals should be applied equally across DNOs and IDNOs.

Do you have any views on the application of the specific new condition proposed here applying to IDNOs?

Energy UK has no views on this.

Question 3: Do you agree that DNOs should be able to directly own and operate small-scale storage for the purposes of providing uninterruptible power supplies (UPS) at substations?

Exceptions should not be applied in a blanket manner to any form of usage, and should be examined on a case by case basis via a transparent application process for the right to an exemption based on key criteria defined by Ofgem in the licence. Energy UK believes that any exceptions to distribution ownership or operation of assets which would otherwise be actions classified in Generation or Supply licences should be clarified across said licences, rather than leaving this open to interpretation. This is the only practicable option to ensure full understanding of these exceptions across the market. In the

event of a DNO failing to secure adequate UPS through a competitive tender and an exception being granted, the entire process should be made transparent to the rest of the market in order to maintain market integrity.

Do you agree that DNOs should be able to directly own and operate small-scale storage for the time-limited purposes of emergency restoration and maintenance?

No. Again, Energy UK believes that DNOs should not be allowed to own storage assets in any circumstance, and operation should be restricted to specific circumstances as awarded via an exemption application process as mentioned above. In any case, such an award must only be granted if all reasonable market-based solutions have been considered and found to be infeasible.

Do you think DNOs should be able to directly own and operate storage for any other specific applications?

No. Energy UK believes that there should be clarity over the set criteria for exemptions and a transparent application and award process for exemptions. As and when new exemptions are considered, these should be consulted upon before inclusion. Energy UK does not agree with the proposal to include the following clause in the guidance document:

“Very limited number of exceptional circumstances where [Ofgem] might consider it acceptable for DNOs to operate storage directly”.

The guidance document should identify, through consultation with industry, specific needs for DNO ownership or operation of storage and should explore the feasibility of market-based solutions. Ofgem should avoid leaving any ambiguity in the licence or allowing for further changes without consultation.

Question 4: Do you have any views on the treatment of existing islanded system generation currently owned by DNOs?

There should be a comprehensive process to ensure that DNOs demonstrate that they have attempted to use a market-based solution prior to requesting any exemption to own or operate storage. Whilst there should be no attempt to immediately shut off existing islanded system generation, there should be a timeline and process by which DNOs should tender for market solutions to replace the DNO in their ongoing ownership or operation of storage or generation assets.

Do you have any views on the treatment of future use of DNO owned and operated generation or storage in similar island situations?

Again, Energy UK believes that DNOs should not be allowed to own storage assets in any circumstance, and operation should be restricted to specific circumstances as decided via an exemption application process as mentioned above. In any case, such award must only be granted if all reasonable market-based solutions have been considered and found to be infeasible.

3. Guidance document

Question 1: What are your views on the three high-level criteria proposed as the basis for assessing applications for consent?

Energy UK members are concerned that the first of these criteria may be utilised as a loophole if there is not a clear and detailed definition of an ‘efficient solution’. Whilst it would be assumed that the efficiency and cost savings should be for the consumer, this should be clear in the text. If a solution is

more efficient or low cost for the DNO, this should not mean that the market should be abandoned in favour of DNO intervention.

Whilst there is a need to preclude the operation of generation by a DNO as set out in EU legislation, this shouldn't necessarily stop any of these facilities being operated by DNOs if the situation can be justified. For example, the Orkney Isles should continue being given security of supply afforded by DNO operation of assets, but, for the sake of system security, all options for alternative solutions should be exhausted. DNO operation of assets is a short-term solution, and should be treated as such.

Energy UK is supportive of the criteria directly referring to DNO operation of storage or generation as a time-limited solution, and detailing the need to frequently review the appropriateness of the solution and capacity of the market to offer an alternative.

Do think there are other criteria which should also be included?

Energy UK supports the inclusion of timelines for how long a DNO can operate a storage or generation asset before being required to repeat the tender process and allow for the market to provide a solution to the issue.

Question 2: Do you have any other views on the scope or content of the proposed guidance document?

Energy UK believes that paragraph 3.7 of the consultation is not sufficiently clear. DNOs applications for an exception other than those outlined in paragraph 3.6 should be made available to the public and all exceptions should be named and defined in legal guidance as discussed above.

Further to this, it is believed by some Energy UK members that the requirements of separation set out in paragraphs 3.4 & 3.5 of the consultation do not go far enough to ensure sufficient separation or provide sufficient monitoring of compliance between the owner and operator.

Energy UK believes that separation should be assured, by the regulator or another independent 3rd party, rather than the proposed 'self-assessment' method identified in paragraph 3.4.

Question 3: Do you have any views on the process that should apply to the assessment of applications?

Energy UK believes that the process outlined seems sensible, but would ask that the process be carried out with enduring transparency to provide clarity over applications and exemptions, and over definitions and examples of market failure. We would also expect Ofgem to carry out periodic reviews on previously granted exemptions, as this would help to ensure decisions are still appropriate, and will aid future decisions on exemptions.

4. Reporting and monitoring

Question 1: Do you have any views on reporting requirements for DNOs that own/operate storage assets?

Energy UK believes that the market should already have visibility of this data. Market tenders and data related to these should already be in the public domain. Sharing of data on need should be published well in advance of a market tender, including data on constraints and existing and predicted demand patterns.

In order for the market to find an 'effective solution' all processes and any evidence of need should be as transparent as possible. This includes in the development of DSO bodies, who should be clear on

what the demand is and why it is they are setting up a market. This includes the integration of these markets and information on evidence of need into wider markets provided by National Grid.

Question 2: Are there any particular types of data that, if published, could facilitate entry of competitive parties?

Energy UK widely agrees with the points set out, and believes that reporting requirements should include:

- Data on frequency and duration of usage of the asset/s;
- Costs of installation, operation, maintenance, and other costs associated with the asset/s;
- Data on local demand and customer behaviors as related to the network affected by the asset/s.

Is there any other information or data that you think DNOs hold about the deployment of storage on their networks that they could usefully make public?

Energy UK would like to see clarity from DNOs on what existing storage assets of any scale or technology they own or operate, and why there is a need for this. It would also be useful to see information on existing constraints and predicted areas of increasing demand. Information on this should be made available in a single format and single location to ensure ease of access.