

Energy UK  
1st Floor  
26 Finsbury Square  
London  
EC2A 1DS

01/11/2018

Chiara Redaelli  
Ofgem  
9 Millbank  
SW1P 3GE

Dear Chiara,

**Energy UK Response to Statutory Consultation on Changes to the Electricity Distribution Licence: Enabling the Competitive Deployment of Storage in a Flexible Energy System**

***Submitted via email only***

Energy UK responded to the 2017 consultation on changes to the electricity distribution licence for energy storage, with the following key points:

- As well as not being able to operate storage, Distribution Network Operators (DNOs) should not be automatically enabled or allowed to own storage in any circumstance.
- Any licence modifications should include all intended changes regarding 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.

Energy UK in August 2018 wrote to Ofgem with the support of three other associations, asking Ofgem to review the regulatory treatment of DNO regulated assets providing ancillary services to the Electricity System Operator (ESO)<sup>1</sup>. Energy UK raised concerns, reflected in Ofgem's proposed guidance, that the commercial use of DNO assets could create a market distortion and be contrary to existing regulatory principles.

**Energy UK Views on the Proposed Changes**

Energy UK welcomes the proposed changes to the distribution licence and accompanying guidance, but finds that the proposed changes are not sufficient to deal with the potential conflicts of interest that Ofgem and Government have identified. Energy UK agrees with Ofgem that where storage assets are owned by monopoly network operators, there is the potential for competition to be distorted.

It remains the view of Energy UK members that neither operation nor ownership of energy storage assets should be automatically allowed within the distribution licence. If limited exemptions for emergencies were found to be necessary in the case of proven market failure, as proposed in exemptions for operation, these would need to be codified and each asset would need to be assessed by Ofgem on a case by case basis.

The recent Smart Systems and Flexibility Plan Progress Update reiterated the intention of Ofgem and Government to define energy storage as a distinct subset of generation in both generation licencing

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<sup>1</sup> <https://www.energy-uk.org.uk/publication.html?task=file.download&id=6767>

and in legislation<sup>2</sup>. Ownership of a generation asset, including energy storage, by a DNO is counter to existing unbundling rules regardless of future arrangements and should not be automatically allowed within these amendments.

Energy UK understands Ofgem's hesitancy to review unbundling rules until DNO evolution and DSO development is further progressed, but believes that it is vital to ensure that UK markets for flexibility continue to be competitive and attractive now. As stated in Ofgem's proposals and evidenced by Directorate-General Competition's (2005) Energy Sector Inquiry<sup>3</sup>, delaying further action by Government and Ofgem may hinder market confidence and much needed industry investment in distributed flexibility.

Tone, content and overall quality of the guidance are high and the proposed changes are easy to understand. The guidance and proposed changes to the licence will go some way to enabling greater confidence across industry and helping to resolve the concerns of both new market entrants and established actors.

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. As stated in our letter earlier this year, Energy UK and its members would also welcome a broader discussion of how unbundling rules can be updated to give market certainty quickly.

If you have any questions please contact Energy UK: [Charles.Wood@Energy-UK.org.uk](mailto:Charles.Wood@Energy-UK.org.uk).

Kind Regards,

Charles Wood

Energy UK  
1st Floor  
26 Finsbury Square  
London, EC2A 1DS  
Tel: 020 7747 2942  
[Charles.Wood@Energy-UK.org.uk](mailto:Charles.Wood@Energy-UK.org.uk)  
[www.energy-uk.org.uk](http://www.energy-uk.org.uk)

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<sup>2</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/748125/ssfp-progress-update.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/748125/ssfp-progress-update.pdf)

<sup>3</sup> [http://ec.europa.eu/competition/sectors/energy/2005\\_inquiry/index\\_en.html](http://ec.europa.eu/competition/sectors/energy/2005_inquiry/index_en.html)