



Enabling the competitive deployment of storage in a flexible energy system: changes to the electricity distribution licence.

E.ON consultation response

Executive Summary

- We welcome this consultation and agree that the proposed new license condition would be beneficial for competition and therefore customers. However, we believe that only in certain circumstances should storage be able to be operated by DNOs and only for a limited time.
- We support the guidance document with the caveat that Paragraph 3.7 of the consultation should be removed and all exemptions should be named and defined in legal guidance
- DNOs should be required to release all necessary information for assets that they own as they would for assets that they contract with third parties for, including operational data for the asset and the costs involved.

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?

1. We agree that the proposed new condition would ensure legal unbundling of DNOs from the operation of storage that benefits from an exemption to hold a generation licence.
2. However, we do not fully understand why some cases should be left for the DNO to own storage. Only in certain circumstances should these assets be able to be operated, for a limited time, by DNOs. Even in these circumstances, we would not support ownership of these storage assets by DNOs.
3. We would also seek clarification on the affect to innovation funded storage. Allowing this storage to continue under DNO ownership provides a signal that future innovation projects that are not allowed as part of the license will be allowed to carry on in business as usual activities. This would create a risk that DNOs perform activities that are not in line with unbundling “under the radar”. We do not think providing this signal would lead to any customer benefit, and would likely lead to detriment for the customer.
4. We believe that there would be merit in redrafting Condition 43B as it currently only refers to generation assets, rather than addressing storage in particular. This clearly is meant to imply energy storage but for the avoidance of doubt we believe that it should more explicitly mention storage.



Question 2

Do you agree that the same principles of unbundling should apply to IDNOs? Do you have any views on the application of the specific new condition proposed here applying to IDNOs?

5. We agree that the principles of unbundling should apply to IDNOs and the new condition outlined in this consultation should be in place for both DNOs and IDNOs.

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

6. We believe that wherever possible, DNOs should be required to look to the market to procure flexibility services before looking to invest in infrastructure, and that this should apply for network reinforcements, UPS and emergency restoration. Market options should drive innovation and cost reduction, leading to a benefit to the end customer.
7. We do not see any specific applications where DNOs should be able to directly own and operate storage without first going to the market.
8. If exemptions are deemed necessary, there should be a clear set of criteria for exemption and a transparent application and award process for these. There should be consultations before exemptions are granted. If there are needs for exemption, the guidance document should identify, through consultation with industry, specific needs for DNO ownership or operation of storage, and 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? Do you have any views on the treatment of future use of DNO owned and operated generation or storage in similar island situations?

9. As above, we believe that wherever possible, DNOs should be required to look to the market to procure flexibility services before looking to invest in infrastructure, including storage on an islanded system. There should, however, be no attempt to shut off existing islanded system generation. A timeline and process should be put in place by which DNOs should tender for market solutions to take these assets into independent operation and ownership.



Guidance document

Question 1

What are your views on the three high-level criteria proposed as the basis for assessing applications for consent? Do think there are other criteria which should also be included?

10. The three criteria that have been set out are appropriate for the guidance document and should help to facilitate economically efficient outcomes for customers. As we have asserted elsewhere in this consultation, it is important that the demonstration that a market cannot provide an efficient solution must be robust, and show that a market, with low barriers to entry that has been well communicated has been trialled.
11. It is important that all network solutions, in any case, can be justified as the most economic and efficient solution. This means that Ofgem must increase its competency and understanding around network operations in order to judge whether the assessment presented for this criteria is robust and leads to the correct outcome.
12. We believe that within the criteria there should be a time limiting factor 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?

13. Paragraph 3.7 of the consultation should be removed. All exemptions should be named and defined in legal guidance.

Question 3

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

14. We have outlined our thoughts on the assessment in our response to question 1 in this section.



Reporting and Monitoring

Question 1

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

15. It will be important that DNOs release as much information for assets that they own as they would for assets that they contract with third parties for. This should include information on the issues that the storage is solving, the operational expectations of the asset, the operational profile of the asset and all costs involved. This will help the market to determine solutions to solve problems in the future and should lead to more competition in future DNO led auctions for storage and flexibility in general.

Question 2

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

16. We would like to see clarity on what existing storage assets of any scale or technology DNOs 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.

E.ON

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