

29th November 2017

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Dear Andrew,

Consultation on enabling the competitive deployment of storage in a flexible energy system: changes to the electricity distribution licence

Please find below the response from Energy Networks Association (ENA) to the above consultation in which Ofgem seeks views on proposals for ensuring that storage is sufficiently unbundled from network business.

ENA welcomes the opportunity to respond to this consultation. For ease of reference this response addresses each of the questions set out in the consultation in the same order as they appear in the document.

About ENA and our members

ENA represents the “wires and pipes” transmission and distribution network operators for gas and electricity in the UK and Ireland. This response comes on behalf of our Electricity DNO members who control and maintain the critical national infrastructure that delivers vital services into customers’ homes and businesses.

General comment

The consultation correctly identifies the potential issues in respect of DNO ownership and operation of storage and the need to ensure that regulation on storage should be consistent with the principles of open and competitive markets that work in the interests of consumers. However, whilst we recognise the need for and support the introduction of regulation on storage we think that in some areas the proposals may be overly restrictive given the relatively nascent stage of storage in terms of market penetration and uncertainty around the evolution of smart flexible systems. The proposed modification should ensure sufficient clarity on the meanings of ‘ownership’ and ‘operation’ and how they apply, including in respect of the business separation requirements.

Q1. Do you agree that the proposed new condition will ensure legal unbundling of the DNOs from the operation of storage that benefits from an exemption to hold a generation licence?

Yes we agree.

Q2. Do you agree that the same principles of unbundling should apply to IDNOs?

Yes we agree. Consistent with the principles of ensuring fair and competitive markets and compliance with EU law the same unbundling principles should apply to IDNOs.

Q3. 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?

Yes we agree that the use of storage (including batteries) in this type of application should be allowed and without the need to meet the 'tests' that will be contained in the proposed Guidance. However, the proposed exception is a very narrow in scope that together with no de-minimis limit on storage (battery) scale means that there are other storage applications within the network system that should attract an exception. For example, batteries are also used in protection systems, SCADA communications and switchgear. We recommend that Ofgem review this aspect of the proposals and undertake a more granular and comprehensive review of the different types of utilisation of small-scale storage across the networks.

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?

Yes we agree that DNOs should be able to directly own and operate small-scale storage for the suggested purposes i.e. mobile generation for use in emergency or outage situations. We also agree that it would not be appropriate to prevent DNOs continuing to operate small-scale assets for short periods on their networks for these periods. In support of this approach we would suggest that arbitrary capacity limits are not placed on DNOs as this may risk introducing inefficiencies, for example mobile generators units smaller than 50kW may provide greater flexibility across a range of scenarios as may units larger than 1.5MW.

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

Storage has an important role to play in addressing network challenges and therefore should, in addition to the applications outlined in the consultation, be available for other applications to enable network operators to efficiently manage their networks. When considering the future regulation of storage we believe that there are circumstances where the ownership and operation of storage assets is entirely consistent with the principles set out in the consultation.

Fully Integrated Network Components: storage (predominantly small scale) is fully integrated into the local distribution network and provides functionality in a similar way as other types of system equipment such as transformers, capacitors, resistors, switchgear etc. In this type of application storage should be considered as a network component that DNO's can utilise to operate an efficient, reliable and secure network. In these circumstances storage would be utilised at lower voltage levels to provide functions such as phase balancing, power factor correction, phase balancing with power factor correction, voltage support and voltage-balancing. This type of application would typically be at street level.

Given its scale, degree of integrity in the local distribution network and type of use, it is unlikely to be efficient (for example, transaction costs and/or fair & appropriate allocation of risk) or operationally practical for the DNO to run a market based tender for supply, construction, operation and maintenance of integrated storage.

Last Resort Provision: It is plausible there will be circumstances where the commercial market place cannot provide viable storage services due to the highly location specific manner networks may need, for example, in remote low density user areas. In these circumstances we believe network operators should be provided with the option to own and operate storage, where it can provide benefits to consumers but where the market place cannot provide it and/or the DNO offers a more efficient solution. However, the regulatory framework must recognise the atypical nature of the service being offered by the DNO in these instances and recompense appropriately.

Innovation: DNOs are currently operating a range of small scale innovation projects that incorporate storage and generation and it can be expected that other projects of this nature will come forward in the future; with DNOs providing funding and a safe test-bed environment. In order for learning and value for money to be maximised these types of projects need to be recognised and accommodated within the proposed new regulation and guidance.

Self/Unmetered Generation: DNOs currently own and operate small scale generation such as solar panels and wind that helps to meet the power needs and provide resilience at offices or other buildings such as contact centres and control rooms. Care needs to be taken to ensure that this type of self-generation which in the future might also include schemes such as Combined Heat and Power are not caught by the proposed licence modification.

Q4. Do you have any views on the treatment of existing islanded system generation currently owned by DNO's? Do you have any views on the treatment of future use of DNO owned and operated generation?

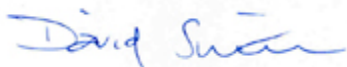
In general the proposals for managing existing island generation and storage are appropriate. However, the proposed new condition to create a prohibition on DNOs from carrying out all generation, including storage needs to be carefully drafted so as to ensure that routine maintenance of existing assets is not inadvertently caught.

Conclusions

Our members welcome and support work by Ofgem to clarify regulatory framework on the ownership of storage and generation and would ask that Ofgem consider carefully the points that have been made above.

If you have any questions on the points raised in this response, please contact John Spurgeon, Head of Regulatory Policy email: john.spurgeon@energynetworks.org

Yours sincerely



David Smith
Chief Executive