

Response to Ofgem's consultation:

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

Background to ENGIE

In the UK, ENGIE employs 20,000 people in a number of activities across the energy value chain, as well as through its extensive services business.

In generation, ENGIE owns First Hydro the UK's foremost pumped storage facilities and over 70MW of renewable generation. In supply, ENGIE operates an Industrial and Commercial (I&C) and Small and Medium Enterprise (SME) B2B electricity and gas supply business, and has recently entered the domestic electricity and gas retail markets through its Home Energy business.

It owns the country's largest district heating business, providing district energy solutions to the public, commercial, industrial and residential sectors. A key site is the Olympic Park District Heating facility in London. It is also one of the top five service companies in the UK, subsequent to the acquisitions of Balfour Beatty Workplace, Lend Lease FM and the Keepmoat regeneration business.

Summary points

- **The proposed new licence condition does not address the issue of ownership, only of operation. Both the Smart System Flexibility Plan and the Clean Energy for all Europeans package identified that ownership needed to be addressed. The consultation proffers no reason for this.**
- **Where ownership is allowed, it should be by exception based on key criteria defined by Ofgem in the licence.**

Response to consultation questions

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?

Ofgem is consulting on a new regulatory condition to prevent DNOs from operating storage and considers that this corresponds with Action 1.8 of its Smart System Flexibility Plan

The issue identified in the Smart System Flexibility Plan is "where flexibility assets are owned and/or operated by network operators there is potential to distort competition in markets for flexibility services or deter new entrants". Ofgem also cites the *Clean Energy for all Europeans* package as a rationale for taking action. This would prohibit DNOs from owning, managing or operating storage (except in very limited circumstances).

Ofgem's consultation does not address the issue - it only looks at the operation of storage. In ENGIE's view, ownership of storage by DNOs is the main issue, not operation - DNOs should in general not own nor operate storage assets, except in some cases (see Q3).

If the licence is changed as proposed, DNOs will be able to source their flexibility needs from storage. More efficient and lower cost demand-side response and other market solutions could be much smarter than a static battery owned and operated by a DNO. Allowing DNOs to invest in storage may kill off these alternative solutions and also severely limit market led opportunities for embedded storage, foreclosing the flexibility market. The role of the DNO should be to define and tender for these needs in the market and allow the market to satisfy these needs in the most efficient way.

With the anticipated growth in storage, this is an issue that should be addressed now - the consultation does not provide any compelling reason to delay introducing a regulatory condition that prevents ownership – it doesn't even provide a timetable to limit DNO ownership of storage. The delay in addressing ownership may result in a rush by DNOs to develop storage sites knowing that at some future point ownership will be prevented.

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?

If IDNOs are privately owned and span a limited geographical scope then they should be allowed to own and operate storage.

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?

ENGIE disagrees. These services may be provided by market players on competitive basis as per the tender approach outlined in the response to question 1. By way of derogation it could be possible for a DNO to own and operate small scale storage for such purposes. Ownership should however be by exception 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.

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

No. ENGIE as noted above, there should be clarity over the set criteria for exemptions and a transparent application and award process for exemptions. There should be no ambiguity in the licence condition to allow ownership and / or operation.

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

Continuity in the operation of islanded systems is paramount. There should be an obligation on DNOs to remove themselves from both the ownership and operation of both islanded and mainland storage with a clear timeline set by Ofgem to achieve this.

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

Please refer to the responses to questions 1 and 3. ENGIE believes that DNOs should not be allowed to own storage assets in any circumstance, unless by granted exception.

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

As noted in earlier responses, the criteria need to extend to ownership as well as operation.

Ofgem proposes that consent would be allowed if DNOs can demonstrate that the market is not able to provide an efficient solution. There needs to be a more detailed definition of an 'efficient solution'. It may be the case that the solution is more efficient or low cost for the DNO compared to the tenders received from the market. This should not mean that the market should be abandoned in favour of DNO intervention – DNOs should be obliged to adopt market solutions where they meet the criteria of the tender.

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

Timelines are needed setting out for how much longer DNOs can continue to own and operate storage. The economic conditions for the transfer of storage assets from DNOs to market parties need to be defined, in a way that reflects the residual value of the storage asset being transferred.

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

Paragraph 3.7 of the consultation, allows DNOs to apply for an exception not named. This should be removed - all exceptions should be named and defined in the guidance

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

Stakeholders should always be given the opportunity to input to the exception applications before consent is granted.

Reporting and monitoring

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

Where a DNO identifies a need for storage, data on this should be published well in advance of a market tender. This should include data on constraints, existing and predicted demand patterns and the flexibility service that are provided. This should equally apply where storage is being used to provide a UPS or for emergency restoration and maintenance.

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

ENGIE agrees that there is no need to publish data where storage assets are both privately owned and span a limited geographical scope.

Where they are owned by DNOs or by IDNOs and span a wide area, 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 behaviours 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?

ENGIE would like transparency on the existing storage assets of any scale or technology that are owned or operated by DNOs, including the reasons why such ownership and operation has been granted.

To aid investment decisions from private companies, DNOs should also be required to provide information on existing constraints and areas of congestion, predicted areas of increasing demand (i.e. 'heat' maps) and on flexibility needs. It would be helpful if this information was located in a single place in a standard format to ensure ease of access.

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