

Andrew White and Chiara Redaelli
Energy Systems Integration
Ofgem
9 Millbank
London
SW1P 3GE

Ørsted response to Ofgem's DNO ownership and licensing storage consultations

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Our ref. Ørsted Response to Ofgem DNO and Licensing Consultations

Ørsted is one of the leading energy groups in Northern Europe. Headquartered in Denmark, we have an interest in several European markets and cover a wide range of energy sector activities. In the UK, we are the market leading developer and operator of offshore wind farms, as well as a gas and electricity supplier focussed on flexibility and demand side response.

We appreciate the opportunity to respond to Ofgem's consultations on 'Enabling the competitive deployment of storage in a flexible energy system: Changes to the electricity distribution licence' and 'Clarifying the regulatory framework for electricity storage: Licensing'. We have set out summaries of our views and responded to your specific questions.

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

We support the steps that Ofgem is taking to unbundle Distribution Network Operators (DNOs) from the operation of storage. We take the view that further steps should be taken now to promote the efficient deployment of storage, including the unbundling of DNOs from both ownership and operation of storage, and ensuring the DNO to Distribution System Operator (DSO) transition allows the development of transparent, efficient markets for providing DSOs with services.

The DNOs played a crucial role in testing and proving there was a role for storage through their innovation projects. The market for storage has rapidly developed, and we have seen 500MW of storage winning contracts through the Capacity Market, and there are over several gigawatts of potential projects with connections. The market has therefore now matured sufficiently such that it is competitive, and monopoly DNOs should not be active participants, as they will hinder the development of effective competition.

Proposed new condition in the electricity distribution licence

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?*

Yes. The main condition which sets out legal unbundling is Standard Licence Condition (SLC) 43B. 43B.1 is the most important clause as it stops a licensee from carrying out activities specified in 4(1)(a) of the EA

1989. Our understanding is that it should therefore exclude both licenced and unlicensed storage and should impose unbundling requirements. We would like to know that if and when storage is defined under the EA 1989, whether this reference will be changed to match.

We would recommend that Ofgem considers the benefits of unbundling DNOs from the ownership of storage, and not just operation. Our view is that DNOs should not be allowed to own storage. Allowing DNOs to own storage requires a complex regulatory framework, and significant oversight from Ofgem. Unbundling the DNOs from ownership will allow a simpler framework and the continued development of a competitive market for storage.

Storage sites are developed and built on the basis that they will be able to provide multiple services, often called "revenue stacking". If DNOs are allowed to develop storage they may do so purely on the basis of their network's needs, and not in response to wider commercial signals. Storage developers in a competitive market, however, will be able to respond to a wider set of commercial signals and not just the DNO's needs.

- 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?*

We agree the same principles should apply to IDNOs. We have not been able to think of any reasons why IDNOs should be treated differently.

- 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?*

Our current view is that we agree with these examples. We view that it is essential that Ofgem makes it clear in advance which applications DNOs can own and operate storage for. We can't currently think of any other specific applications, but expect that any applications will likely be small-scale in nature, and must be in areas where the DNO can't tender for the provision of the battery or where the competitive market will not provide it.

- 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 of storage in similar island situations?*

We recognise that islanded system generation can require different treatment. Nevertheless, we view that DNOs must still make efforts to utilise competitive processes, including seeing whether storage in an islanded system could be tendered and provided by a developer.

Guidance document

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

We have some concerns over the first criteria – that the DNO must demonstrate the market is not able to provide an efficient solution. In our view this may provide a perverse incentive for DNOs to not develop transparent, efficient markets for the services they need – as it gives them an opportunity and justification for owning storage. We believe that this issue is most easily resolved by stopping DNOs from owning storage. If DNOs are allowed to own storage, then we think it is necessary that Ofgem carefully assess whether DNOs have taken the necessary steps to develop markets, and that these markets are unable of providing the services they need.

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

Subject to the views we have expressed in our other answers, the scope and content seems reasonable.

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

The process seems reasonable, however it does place a significant burden on Ofgem to ensure that you are able to assess these applications correctly. Our preference, as set out above, is a blank exclusion of the ownership and operation of storage by the DNOs to ensure a simple and transparent regulatory framework.

Reporting and monitoring

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

Our view is that, as DNOs move towards being DSOs, they should be publishing the type of data set out in the question below, as the DSOs seek to encourage efficient commercial markets for the services they need, including from storage.

As part of this we would expect DSOs to publish information on their storage assets, so that market participants can understand how they can provide those services in the future, and that competitive markets are being facilitated.

We would suggest that this type of information provision needs to be carefully considered as part of the DSO transition, so that market participants are aware of the needs of the DSOs. We are not aware of this area being considered sufficiently in depth as part of the ENA Open Networks project.

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?*

Our views on this question are set out above – we would expect DSOs to publish much of this information as business as usual. Along the lines of the innovation projects, DSOs may need to publish further information, to justify their use and operation of storage.

Clarifying the regulatory framework for electricity storage: Licensing

We support Ofgem’s consultation to extend the Generation Licence to enable storage. We believe that it is an important stepping stone to clarify the treatment of storage, and to enable storage sites to have appropriate obligations and rights, as well as ensuring licensed storage sites avoid the Final Consumption Levies.

However, the majority of storage sites will be smaller than 50MW or on mixed-use sites. We suggest that further work is required to ensure there is a suitable regime to reflect the nature of these storage sites, and to support the continued, efficient deployment of storage across Great Britain.

Our proposal and rationale

1. *Do you agree that the form and content of the licence proposed in this consultation will achieve the purpose and deliver what we committed to in the Smart Systems and Flexibility Plan?*

Partially; HM Government and Ofgem set out within the plan that you would propose a modified licence that allows storage to exempt itself from “Final Consumption Levies” (FCLs), such as the Contracts for Difference Supplier Obligation. In our view, holding a licence should generally enable that. However, to be definitive, each of the individual schemes will need to be examined over how their levies are defined, which types of user they refer (eg. suppliers, end-users), and the metering arrangements under that scheme (eg. gross vs. net).

The implementation of the licence in this manner will be an appropriate solution for very large storage sites, however most storage sites are much smaller than 50MW and may not seek a generation licence due to the requirements. There may need to be a more flexible, bespoke solution for smaller sites. As an example, it may be appropriate for there to be a “generator-lite” or “storage-lite” licence, that allows storage sites to be licenced and exempt from the FCLs, but doesn’t require them to sign up to all the requirements of the licence. We recognise that the current licence allows for derogations, however considering the number and volume of storage sites, we view a more systematic approach is required.

We also view that these changes will not clarify the issues that exist for mixed-use sites. The Smart Systems and Flexibility Plan identified that there were several barriers to co-location, such as through the renewables schemes. We view that there may be additional barriers, such as the treatment of behind-the-meter storage, and view that additional work needs to be taken looking at the potential situations storage may be deployed, and how the regulatory frameworks function in those situations. We highlight an example below in our response to question 3.

We also note that the licence will define storage, whereas other definitions, such as generation, are defined by referencing the EA 1989.

Our preference is that definitions should be consistent. We view that once storage is defined in the EA 1989 the licence definition should also be amended for consistency, so that it refers to the EA 1989.

2. *Do you have any views on whether we should include 'in a controllable manner' in the definition of electricity storage?*

In our view, any definition of storage should be aligned across the Acts, licences and codes.

It is not clear from your consultation what the phrase 'in a controllable manner' refers to. We think that it could be interpreted in two broad ways. Firstly, it could refer to the change of energy within the site (eg. a battery can control electrical energy being converted to chemical energy). Secondly it could refer to the site itself (eg. a battery can be controlled in terms of power output).

In our view, the former is reasonable, but may need to be amended or clarified so that it is not misinterpreted for the latter. As an example, the definition could be amended so that it says that the conversion of energy from electrical to a stored form, and vice-versa, is controlled. If the intent is the latter then our view is that it is not appropriate and necessary, as any storage site with a generation licence will be subject to the Codes and will be "controllable" as required by the provisions of the Codes.

3. *Do you think there are any risks or unintended consequences that could arise as a result of our proposal? If so, please provide an explanation.*

We support the principle of the new Standard Licence Condition (SLC) E1. Our reading of the condition is that it is there to ensure that any storage sites are performing the role of storage, and are suitable holders of a generation licence, and are not being used to avoid a supply licence.

However, SLC E1 is defined in a way in which it may prohibit and discriminate against storage in certain situations, especially as it is not explicitly clear what "self-consumption" means. We have a few examples:

- Some sites could have a primary purpose of providing frequency response. In such situations, they may export very little electricity as they are waiting to be called upon by National Grid, and may consume more electricity, such as due to self-discharge/losses, than they export.
- Storage sites which are behind the meter could be exporting while the rest of the site is heavily importing. In these cases, it would not be clear that the storage site is not consuming electricity.

We would recommend Ofgem makes it clearer what the purpose of SLC E1 is, so that changes can be made to further improve the condition, and ensure there are no unintended consequences.

4. *Do you have any comments on the list of technologies that should be included or excluded from the definition of storage as set out in Appendix A?*

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We have no comments. The list seems appropriate currently, but may need to be amended in the future.

Changes to the licence application form

1. *Do you have any comments on the proposed changes to the Application Regulations for electricity and gas licences?*

We have no comments.

If you have any questions on our response, please feel free to contact me (almos@dongenergy.co.uk, 078 0759 2034).

Yours sincerely

Aled Moses
Senior Regulatory Affairs Advisor, Ørsted