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By email only: flexibility@ofgem.gov.uk

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Dear Andrew

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

Thank you for the opportunity to respond to the above consultation. This letter should be treated as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc.

We support the proposal that DNOs should be able to own and operate storage in specific circumstances, including:

- Where the market has not been able to provide a solution and storage offers a lower cost option than reinforcement; and
- Operational cases of UPS and emergency response and maintenance.

As you are aware, UK Power Networks has within its group an affiliate known as UK Power Networks Services. It is our understanding of your proposals that, subject to our DNOs' compliance with LC42/43/43A, there is no regulatory reason why UK Power Networks Services should not be able to own or operate storage. It is with the above and your consultation in mind that we are commencing the process of reappointing a Compliance Officer in advance of the re-switching on of LC42/43 for our DNOs.

Finally, we have two material concerns with the proposals as they stand:

- The drafting of the amendments to LC42 inadvertently means that distribution licensees in an ownership group with more than one distribution licence automatically become Relevant Exemption Holders when one of those distribution licensees operates storage. This would mean the need to separate management, premises etc. between distribution licensees in that group. This needs correcting as it affects all multi-licensee DNO groups.

- We are concerned that the balance of formalising the policy in licence conditions/guidance is incorrectly weighted towards guidance documents whose governance structures are not strong enough to give appropriate signals to the market for long-term policy in this area. We expand on this point in the appendix to this letter, which contains our detailed responses to the questions in the consultation document.

I hope that you will find our feedback helpful. If you have any questions, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Hope', with a stylized flourish extending to the right.

James Hope
Head of Regulation & Regulatory Finance
UK Power Networks

Copy Paul Measday, Regulatory Compliance & Reporting Manager, UK Power Networks

Appendix

Chapter 2

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?

At a high level, the licence condition achieves the stated aim. However, our answer to question 3 of chapter 2 is pertinent here in respect of the content of the draft licence condition and the fact that the balance between content in the licence condition and the guidance document appears to be incorrectly weighted.

The drafting of the amendments to LC42 inadvertently means that distribution licensees in an ownership group with more than one distribution licence automatically become Relevant Exemption Holders when one of those distribution licensees operates (licence-exempt) storage. This would mean the need to separate management, premises etc. between distribution licensees in that group. We believe that amending the term Relevant Exemption Holder to explicitly exclude other holders of a distribution licence would resolve this:

Relevant Exemption Holder means a person who carries out the activity specified in Section 4(1)(a) of the Act and who is authorised to do so by an exemption pursuant to Section 5 of the Act, that is also an Affiliate or a Related Undertaking of the licensee except where that person is the holder of an Electricity Distribution Licence.

Those material points aside, we note that SLC 43B.5 talks about “Consent Guidance”, which is a term not used elsewhere in the draft condition. We assume this should be “Direction Guidance”.

We look forward to working with Ofgem and affected licensees to conduct a thorough review of the licence condition and the guidance once a draft of the latter is available and the balance between them has been settled.

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?

Yes, we believe that DNOs and IDNOs should be required to comply with the same obligations in this area; this includes identically worded licence obligations. We feel it would be inappropriate for Ofgem to not afford customers connected via an IDNO the same treatment as those connected to a DNO in this area of policy.

LC 42 and LC 43 are in a part of the distribution licence that does not apply to IDNOs, and this needs to be considered in their implementation for this type of licensee. Furthermore, LC 42 and LC 43 have been ‘switched off’ for UK Power Networks’ three DNOs; we will therefore work with Ofgem to build this required change into this work and are already taking steps to reappoint a Compliance Officer.

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?

We support the proposal for DNOs to be able to directly own and operate small-scale storage for the purposes of providing UPS at substations and for the time-limited purposes of emergency response and maintenance. Such ownership is key to running an efficient, co-ordinated and economic system of electricity distribution, as DNOs are obliged to do under the Electricity Act.

In respect of these proposals, we seek clarity on the following:

- As drafted, a UPS may only be used at substations – it should be possible for such equipment to be used at any DNO premises (e.g. offices and operational yards) where it is for the benefit of running an efficient and economic system of electricity distribution;
- As drafted, the term “small-scale” is used – care should be taken to avoid terminology that is open to interpretation and leads to uncertainty. Defined size limits should be used to ensure clarity for all involved; and
- In respect of mobile generation for emergency response and maintenance, the size limit should be future-proofed to avoid the need for changes to the licence condition or guidance in the future – this is especially the case if generator capacities increase over time as technology develops.

Your final sub-question asked about any additional applications where DNOs should be able to own storage. To help ensure DNOs are not seen as a barrier to the rollout of electric vehicles (EVs), and to help DNOs play their part in meeting the UK’s climate change commitments, we believe that DNOs should be allowed to own and operate portable generation and storage to allow deployment of a fast (temporary) response to the clustering of EVs. In such cases, deployment would be time limited until an enduring solution could be implemented at that site.

Care should also be taken in implementing these requirements to ensure that DNOs are not inadvertently prevented from owning or operating an EV fleet.

Finally, we support the proposal that DNOs should be able to own and operate storage where the market has not been able to provide a solution and storage offers a better cost option than reinforcement.

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 of storage in similar island situations?

We note that this question is focused on islanded generation although this section of the consultation looks at wider types of existing storage such as that funded through Low Carbon Networks Fund (LCNF) schemes. We believe that all existing generation owned by DNOs should be exempt from any new condition, as customers have already made the investment to build these assets as a response to a specific situation. It would therefore raise legitimate questions if customers were asked to now pay for the service again if these assets were to be sold and the services procured from these sites via third parties. Ongoing maintenance and development of these assets should also be exempt from this condition so as to maximise the value to customers from these assets.

The precise cut-off date for such a decision would need consideration, mindful that a future cut-off date could give signals that it is acceptable for DNOs to continue building such assets up until that date.

Finally, in respect of existing generation, we look forward to continuing to work with Ofgem to identify arrangements for UK Power Networks' LCNF funded battery at Leighton Buzzard.

Chapter 3

Question 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?

As outlined in our response to question 2 of this chapter, we believe that the first high-level criterion (regarding when Ofgem would expect DNOs to apply for an exception from the new condition) should be covered in the licence condition, not the guidance document. This criterion is a policy decision, not a process point.

The second and third high level criteria (criteria that Ofgem should take into account when making an assessment of an application and application process/timescales) are suitable for the guidance document, as they are process points.

Furthermore, we believe that the guidance document should include binding timescales on Ofgem and a default position of acceptance of the request if a decision has not been given by Ofgem in a specified time period.

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

The balance between what needs to be in the licence condition and what can be placed in the guidance document needs careful consideration. By way of an example, issues that could change the structure of the industry or changes to the restrictions on what generation a DNO can own and operate (i.e. scope) must be in the licence condition, as these are in effect policy decisions. This document comes with well-defined governance and change control, therefore giving the licensee and third parties long term clarity on the market structure. Issues that are of a more operational nature and do not affect the scope (and can therefore be seen as process points) should be embedded in the guidance document, which has a lighter requirement for change control. This would then mirror existing structures in the distribution licence and associated guidance documents.

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

Ofgem's high-level proposals include timings, content of applications and transparency – which we support. We look forward to reviewing the detail of these proposals once developed. We also believe that Ofgem should look at other existing processes for directions/derogations, to see if there are any points which can be learned from them. The derogation process operated under LC24 is one such document.

Chapter 4

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

We believe that any reporting must be proportional to the subject matter and considered in the context of the significant volume of wider reporting that DNOs already undertake. Reporting does of course incur a cost which is borne by customers, so again, the need for proportionality is key.

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?

We feel that this question is intended more for third parties than ourselves, but welcome the opportunity to review the feedback given to Ofgem on this subject.