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

Dear Chiara,

Please find here UK Power Reserve's response to the proposed changes to the distribution licence to enable the competitive deployment of storage in a flexible energy system.

Context of response

UK Power Reserve is the leading provider of secure, flexible, low carbon electricity and services to the UK power market. With over 1GW portfolio of decentralised thermal power generation and battery storage assets, we help keep the country's electricity system balanced and resilient. Our fast-ramping, low-cost and efficient assets are located across England and Wales, improving competition, contributing to security of supply, and delivering better value to consumers. Our assets are, and will continue to be, crucial in delivering a flexible energy system in which a greater proportion of energy is delivered by intermittent, low carbon generators.

UKPR broadly supports the reforms being delivered by Ofgem and have welcomed the opportunity for collaboration in developing the legislation.

Prohibition on generating and exceptions

UKPR consider that the ownership of a generation asset, including energy storage, by a DNO is counter to the existing unbundling rules set out under the EU Third Energy Package. We are therefore firmly of the view that network operators should be prohibited from owning and operating storage assets other than in exceptional circumstances. Such circumstances would include the provision of uninterruptible power supplies at substations and time-limited purposes of emergency restoration.

There must also be an assurance that legal separation is complete and monitored effectively. Some operators will have access to a commercial arm or subsidiary, that may have the opportunity to utilise storage assets on their behalf. Both Ofgem and BEIS will need to ensure that DNO operations also includes these commercial

subsidiaries of the DNOs, and as such further clarity in both the legal text and associated guidance is required. Without such action, there is a risk of creating a loophole in the proposals; at the detriment of market competition.

Ofgem will need to take further care on exemptions for generation. For example, there are services that a DNO may provide without exporting, such as demand turn up. In this case, a DNO could own a storage asset and charge it, therefore increasing demand and providing a service without generating. It is paramount that such services are left to the market. In any case, we envisage – and would support – Ofgem maintaining a certain amount of oversight to ensure that no rules are being exploited.

Finally, with regards to islanded assets, UKPR stress that the prohibition on owning and operating storage should apply to all assets currently owned and/or operated by DNOs. The proposed exclusion from the prohibition for already existing DNO-owned and operated islanded system generation and storage is not justifiable and could set a dangerous precedent.

Category C exceptions

A transparent application process for the right to an exemption should be used. This should be based on the key criteria defined by Ofgem in the licence to ensure that consistency is maintained and should be carefully monitored, to provide assurance that all reasonable steps are being taken to obtain market-based solutions in the first instance.

In addition, UKPR have some concerns related to exemptions for projects that have previously received innovation funding, including the suggestion that it may be more appropriate to automatically exempt projects that have received funding. We strongly dispute the rationale of some network operators; that to receive funding, a project would have already received Ofgem approval, meaning a further round of approval to become exempt may be unnecessary. There is no reason why network operators should be applying for innovation funding for storage projects. The industry has been aware of the changes to the licence for a significant amount of time, and Ofgem's position on the use of storage assets by DNOs has also been clear.

Furthermore, UKPR does not support an ad hoc approach for existing DNO-owned storage assets, and do not think that a case-by-case treatment is a suitable solution. To ensure that ownership and commercial operations are kept separate, as well as achieve the lowest cost to consumers, these assets should be sold.

Asset register

UKPR agree that it is in the interest of market parties and distribution licensees alike that a public register is held which contains reference to generation assets operated by licensees. Finally, we note that Ofgem intend to maintain a register of all specific consents that have been granted and refused under Category C. We consider this to be equally as valuable as the register of assets in ensuring that network operators are prohibited from owning or operating storage assets.

Should you have any questions, please do not hesitate to contact James Jackson at
james.jackson@ukpowerreserve.com.

Kind regards,

James Jackson
Regulatory Analyst
UK Power Reserve