

Chiara Redaelli  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

26 October 2018

Dear Chiara,

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

We are pleased to respond to Ofgem's statutory consultation on a new electricity distribution licence condition relating to the operation of storage, and to the consultation on a draft Prohibition on Generating Guidance (POGG) document. This response is from ScottishPower. Our networks business, SP Energy Networks, is responding separately on matters specific to its business.

Licence drafting

As noted in our response to Ofgem's 2017 consultation, we agree with Ofgem's assessment that widespread operation of electricity storage facilities by distribution network operators (DNOs) could give rise to risks of distortions or foreclosure in the uptake of storage and other forms of flexibility such as demand side response. We are therefore supportive of the objective of limiting DNOs' ability to operate electricity storage facilities to certain specified circumstances. The proposed new licence condition SLC 43B appears to achieve this policy objective.

Guidance

We agree with the position set out in the proposed licence conditions that a DNO may operate generation which qualifies for an exception under SLC43B.1 (and is also licence exempt), without the need to implement the business separation arrangements of SLC42-43.<sup>1</sup> We are therefore puzzled by the statement in paragraph 2.2 of the Guidance that "*Where a licensee has put in place arrangements to eliminate the conflicts of interest described in paragraph 1.5 through business separation measures, they may use one of the exemptions specified in [...] SLC 43B for DNOs.*" Our reading of the licence drafting is that there is *no* business separation requirement for the SLC43B.1(a) and (b) exceptions; and for the SLC43B.1(c) exception there is the SLC43B.2(c) requirement to put in place arrangements that minimise the risk of discrimination or distortion of current and future markets, but not a formal SLC42-43 business separation requirement. The revised SLC42 drafting brings licence exempt generation within the scope of the business separation rules, but only where that licence exempt generation does not benefit from SLC43B.1 exceptions. We wonder whether paragraph 2.2 should refer to "*exemptions under Section 5 of the Act*" instead of "*exemptions specified in [...] SLC 43B for DNOs*"?

<sup>1</sup> The definition of a Relevant Undertaking in SLC42 "*does not include a person who at the relevant time benefits, and only to the extent that person so benefits, from an exception under condition 43B.1*".

Should you have any questions, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink that reads "Richard Sweet". The signature is written in a cursive, flowing style.

**Richard Sweet**

Head of Regulatory Policy