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26th October 2018

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

Dear Chiara,

SmartestEnergy welcomes the opportunity to respond to Ofgem's statutory consultation on changes to the electricity distribution licence.

SmartestEnergy is an aggregator of embedded generation in the wholesale market, an aggregator of demand and frequency services as well as a supplier in the electricity retail market, serving large corporate and group organisations.

Please note that our response is not confidential.

SmartestEnergy's response

Within the context of the change Ofgem proposes to make, we wholeheartedly agree with the intent of said proposed licence changes. However, whilst these licence changes represent a step in the right direction, as stated in previous consultation responses, SmartestEnergy believe that Distribution Network Operators (DNOs) should not be allowed to operate or even own storage. Consequently, in response to Ofgem's view that "as the role of the DNOs continues to evolve and the potential for conflicts of interests consequently increases – there will be a need for the unbundling regime to be strengthened to include separate ownership of storage" we would welcome further clarity regarding Ofgem's plans for further separation in future. Indeed, we are not convinced that it is necessary to wait and see how matters develop as a point of principle.

Regarding specific licence modification drafting, and whilst we feel there should be further restrictions on ownership and operation, we are pleased to note that the changes will require DNOs to produce annual compliance reports, including information regarding usage of generation/storage assets. This is a necessary step in ensuring compliance with the new licence conditions.

In relation to conditions 31D and 43B, we are content with point A: that such assets may be used on islanded networks provided that they pre-date these licence conditions. This represents a unique situation as there may be no other commercial arrangements or viable solutions to ensure security of supply for consumers.

However, we have concerns over the drafting as proposed for point B. As drafted, this licence modification allows for the generation of electricity by a DNO "for purposes of security of supply, system resilience, or energy management". This drafting is too broad, particularly in the context of DNOs becoming Distribution System Operators. It is not inconceivable that DNOs could argue that a net-importing position to be a 'security of supply' issue if they are managing their own networks. In this scenario, it may be more economic to take actions on other networks or on the transmission system, rather than allow DNOs to operate storage and distort the market. Similarly, 'system resilience' and 'energy management' both need more explicit definitions under the proposed drafting. It may be that the examples given in the guidance (Uninterruptible Power Supply, Emergency Response and Energy Management at licensee owned sites should be placed in the licence). That said, this change could be left as is, provided that an obligation to prove that no viable market option was available was added to point B (as is required in point C, for technology trials etc.). This would mitigate risks of inappropriate use, similar to those raised by market participants in response to Electricity North West's CLASS project. Equally, it is important that any such demonstrations of market failure are both independently scrutinised and made publicly available for challenge.

Should you require further clarification on this matter, please do not hesitate to contact me.

Yours sincerely,

Colin Prestwich
Head of Regulatory Affairs