

## Clarifying the regulatory framework for electricity storage: licensing

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

We would like to comment on two aspects, the needs case for storage licensing and the definition of storage therein.

#### Licensing

The main benefit to the business case for storage through licensing is a solution to remove final consumption levies ("FCLs"), and we see this as a positive step. However exempted generators will not be covered under this licence and appear to still be subject to FCL's, removing any benefit of the addition of new licence. We expect to see the majority of storage to be connected at distribution level, and likely to be sub 50MW. Using the principle of proportionality, generators under 50MW are not expected to apply for generator licences as their impact to the system and markets is not significant. Using this same principle, and that of a level playing field, the majority of storage systems, should not have to go down a licencing route for market access. Particularly when it is in attempt to solve the problem of FCLs which appears to be a legislative issue.

We believe all storage operators, even if small-scale, will wish to be subject to the licence in order to benefit from the FCL exemption potentially increasing significantly the volume of licenses issued and making small-scale exemption irrelevant.

We believe the cleanest solution for removing FCLs for storage is to have storage defined in primary legislation, and exempted from FCLs, but unfortunately this does not appear to be a preferred option. In the interim period, storage operators can opt for the generator licence route to get FCLs exempt.

As noted in the Dieter Helm Cost of Energy review, the licencing regime is not fit for purpose anymore, it needs simplification not more complexity. The lines between these licences are becoming less significant as technology and markets develop and to continue as-is will hinder innovation and lead to cost inefficient outcomes. We should take this opportunity, with a relatively new tech coming to market, to get it right first-time and not create the unnecessary burden of a technology specific licencing regime.

## Definition

In terms of Condition E1, the current definition may lead to some ambiguity for behind the meter projects that still have the potential to export to the grid. For example, the definition as currently provided is clear for projects that are entirely 'grid-connected', where all energy imported/exported flows to/from the grid directly; and clear for entirely 'behind the meter', where all imported energy would effectively be used to offset demand and be self-consumed (where FCLs should still apply) – however it does not adequately determine how it would be applied for hybrid projects that can both offset demand, and also spill to grid in certain circumstances – for example when discharge is offsetting more than the level of on-site load.

"Primary function" is not specific enough to determine when this condition applies – for example, it could imply an evaluation based on time spent performing different services, or equally based on the relative financial benefit of different services provided. In these cases, arguably the FCLs associated with the energy exported to grid should **not** be levied, whilst energy self-consumed would still be subject to FCLs. A mechanism that allowed exemption from FCLs for energy not used for self-consumption would be more effective, rather than stipulating a binary condition based on primary function.

One aim of the Flexibility Plan is to reduce investor uncertainty in storage. We believe this can be achieved by including a definition for storage in primary legislation and from this an appropriate framework can be built.

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

We agree with Ofgem and the ESN that this is a sensible addition.

### **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 believe an unintended consequence may be to effectively force all storage operators to seek a licence in order to benefit from the FCL exemption, since not to do so would mean competitive disadvantage in operating costs. This would effectively make any exemption for small scale storage redundant, and could significantly increase the volume of applications and licences granted.

As noted previously it continues down the road of increasing licences and licence complexity when we should be reducing these to enable more innovation in the market. In principle, if we are attempting to create a level playing field for technology in the marketplace, creating a subset licencing regime for a specific technology class does not seem logical. We would expect to see a detailed cost benefit analysis and impact assessment on the what this means for storage and its

business case. On its approach to regulation, Ofgem states on its website “We have a duty to undertake impact assessments for every important policy proposal we make.” What is presented is very high level and it is still difficult for industry to know what the implications are for storage business, for instance the requirement to sign up to numerous codes. On the face of it there seems to be a lack of value creation from this licencing proposal.

**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?**

We agree with the list of technologies to be included and excluded from the definition of storage. However, it would be useful to include a simple assessment criterion with high level principles to ensure any new technology can be easily defined as falling within the storage definition or not, if it does not neatly fit into this technology list.