

Chiara Redaelli
Energy Systems Integration,
Ofgem
9 Millbank,
London,
SW1P 3GE
flexibility@ofgem.gov.uk

Centrica plc
Millstream East
Maidenhead Road
Windsor
Berkshire SL4 5GD

Telephone 01753 494000
Facsimile 01753 431010
Website: www.centrica.com

17 November 2017

Dear Chiara,

Clarifying the regulatory framework for electricity storage: licensing

Centrica supports Ofgem's proposed approach to amend the generation licence to accommodate for electricity storage. This will ensure that clarity is provided swiftly to storage providers that are subject to the generation licence.

The generation licence modification proposed by Ofgem will reduce the risk exposure of storage investors in the near term, however, Ofgem should consider the creation of a specific licence for storage, as we believe this may be necessary in the longer-term. However, any introduction of a storage-specific licence must explicitly prohibit network and system operators from owning or operating storage.

The clarification outlined in this consultation only affects storage assets above 50 MW, whereas most new storage projects are below this level. We encourage Ofgem in future consultations to also consider storage projects that are generation licence-exempt.

Centrica believes that the amendments proposed are not sufficient to ensure that storage assets are not subject to Final Consumption Levies. The amendments provide welcome clarification for large-scale storage, but does not address this issue for generation licence-exempt storage. Additionally, there may be amendments needed to the secondary legislation for each of the levies; Ofgem (in conjunction with BEIS) should outline these issues and address these individually, ensuring that all storage is accounted for.

Please find below the detailed responses to the consultation questions. Please do not hesitate to contact me, if you would like to discuss any points raised.

I confirm that this letter and the response to consultation questions may be published on Ofgem's website.

Yours sincerely,

Jack Abbott
Regulatory Manager, Wholesale Electricity Markets
07557 615 587
Jack.abbott@centrica.com

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?

Centrica supports Ofgem's proposed approach to amend the generation licence to accommodate for electricity storage. This will ensure that clarity is provided swiftly to storage providers that are subject to the generation licence.

However, we believe that Ofgem should not rule out introducing a storage-specific licence in the long-term; a storage-specific licence could provide better clarification and obligations for a set of technologies that both imports and exports a relatively large amount of electricity. A storage-specific licence would also ensure that there are no unintended consequences for storage technologies, following amendments to the generation licence.

If Ofgem were to progress with the introduction of a storage-specific licence, it must be explicitly clear that unbundling provisions apply to assets under a storage licence. Therefore, any storage-specific licence must include provisions that explicitly prohibit network and system operators from owning or operating storage. Such provisions would need to remain in place, irrespective of the United Kingdom's future relationship with the European Union.

This consultation meets action 1.2 in the Smart Systems and Flexibility Plan, which stated that it would consult on a modified generation licence for storage. However, we believe that this action does not resolve related issues to generation-licence exempt storage (i.e. assets below 50MW); this is discussed in more detail in question 3.

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

It is acceptable that 'in a controllable manner' is included within the definition of electricity storage. However, we note that the European Commission definition of energy storage in the proposed revision of the Electricity Directive does not include the 'in a controllable manner' provision. The European Commission defines energy storage as: *"in the electricity system, deferring an amount of the electricity that was generated to the moment of use, either as final energy or converted into another energy carrier"*

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

This Ofgem consultation only clarifies the regulatory framework for storage assets above 50 MW. Below this level, generation and storage will be generation licence-exempt, as acknowledged by Ofgem in the consultation. Therefore, this generation licence amendment is likely to only affect pumped storage projects; planned battery storage projects are below 50 MW, evidenced by successful battery projects in the 2016 Capacity Market and Enhanced Frequency Response tender. We encourage Ofgem in future consultations to consider storage projects that are generation licence-exempt, and to provide clarification on how aggregated assets might be affected by this licence.

We support Ofgem's goal to ensure that 'Final Consumption Levies' (FCLs) are only charged to the final end consumer. However, we believe that the proposal in the consultation is not sufficient on its own to resolve this issue for all storage.

The amendment to the generation licence stating *"The licensee shall not have self-consumption as the primary function when operating its storage facility."* provides the required clarity for storage assets subject to the generation licence, regarding self-consumption. Ofgem must ensure that they develop solutions which resolve FCL issues for all storage assets. We believe that the above amendment should also apply to generation licence-exempt storage.

The allocation of Final Consumption Levies is defined in the relevant secondary legislations applicable to each of the different levies (e.g. The Electricity Capacity (Supplier Payment etc.) Regulations 2014) and these may need to be amended to ensure that storage assets are not subject to these levies. Ofgem should work with BEIS to determine the respective regulations and guidance requiring amendments and share this with industry.

Within the consultation, Ofgem stated that: *"where storage obtains an exemption to the requirement to hold a licence, storage would be subject to FCLs as the meter point will need to be registered with a supplier in order to import/export electricity."* This is not necessarily true as the storage owner can choose to sign a Bilateral Embedded Generation Agreement (BEGA) with the Transmission Company to realise the embedded benefits¹, in which case the asset would be metered by Central Volume Allocation (CVA). In this case, the storage asset would not be registered with a supplier in order to import electricity and hence should not be subject to 'Final Consumption Levies.'

If a storage's output is registered to a supplier to import and export electricity (Supplier Volume Allocation - SVA – metering), then it is effectively acting as negative demand (if discharging) for a supplier. This means that the storage import or export has to be differentiated from the supplier's demand profile, and therefore more challenging to exempt the storage asset from final consumption levies.

Therefore, a storage asset can ensure that it is exempt from 'Final Consumption Levies' by signing a BEGA directly with the Transmission Operator (TO) and hence being CVA metered. This would provide greater visibility to the Transmission Operator and System Operator of the assets on their network.

However, we appreciate that the above metering configuration may not be feasible for some investors and operators. We encourage Ofgem and BEIS to consider how Final Consumption Levies can be apportioned, so that storage which is not predominantly self-consuming is not subject to FCLs. Ofgem should consider gross demand and using storage sub-metering in its approach to resolve this.

To note, Centrica's position is that network charges should be cost reflective and therefore apply to both the import and export of electricity by storage as they use the networks twice. This is analogous to generation assets paying relevant network charging on imported electricity for auxiliary load.

¹ (https://www.elexon.co.uk/wp-content/uploads/2016/01/Embedded_Generation_v7.0.pdf),

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 do not believe that any technologies should be added to or removed from the list of technologies listed in Appendix A.

Changes to the licence application form:

1. Do you have any comments on the proposed changes to the Application Regulations for electricity and gas licences?

The changes to the licence application form seem sensible, including the addition of the declaration that *“Provide a brief description of the activities the applicant intends to carry out, specifying whether they entail the storage of electricity.”*

We believe that Ofgem should have signalled these changes to a wider audience, rather than embedding within a consultation focussing on storage, as these changes will affect all technologies.

Centrica
November 2017