



Chiara Redaelli
Energy Systems Integration
Ofgem
9 Millbank
London
SW1P 3GE

Head Office
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

polina.kharchenko@sse.com

01738 512072

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Dear Chiara

Clarifying the regulatory framework for electricity storage: licensing

We welcome the opportunity to respond to this consultation.

We are supportive of the licence changes proposed by Ofgem to define electricity storage as a subset of generation. This change, once implemented, will clarify the regulatory status of storage within the electricity system and will provide the basis for further clarity on other aspects of the regulatory regime, such as network charging arrangements for storage. However, in our view, the licence exemption provisions for storage must be carefully considered.

Separately, we encourage Ofgem to ensure that any unintended consequences of the proposed changes identified through this consultation process are given sufficient consideration prior to any final changes being taken forward.

Kind regards

Polina Kharchenko

Regulation Manager

Consultation questions

Question 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 support Ofgem's view that electricity storage should be treated similarly to generation as they perform similar functions in terms of exporting electricity onto the grid. Our view is that the proposed change to include electricity storage as a sub-set of generation in a generation licence provides clarity on the licensing framework for electricity storage. However, further consideration should be given to the class exemption arrangements in relation to storage given that majority of the proposed storage installations are below the size of 50MW.

We expect that the proposed licensing arrangement for electricity storage will facilitate changes to the charging arrangements for storage so that network charges do not put storage at a relative disadvantage to other network users, as currently is the case. We also expect that Ofgem's guidance on asset co-location on the same site as renewable generation will provide further clarity in relation to the electricity storage framework.

Separately, we also support a development of the mechanism which would help suppliers identify the instances where final consumption levies (FCLs) are to be applied.

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

We suggest that the definition of 'electricity storage' should be consistent across the regulatory framework. Our view is that any inclusion of additional wording in the proposed definition of electricity storage should then clarify what constitutes 'in a controllable manner' and be aligned across the regulatory framework.

Question 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.

In our view, the proposed approach would result in distortions remaining for storage assets behind the meter and, therefore, further consideration needs to be given to how any remaining distortions could be reduced in the most economic and efficient way. A better solution might include a removal of all revenue collection FCLs from all final consumption volume with a change to the £/MWh charging base. For example, revenue collection FCLs could be applied using a fixed charge or capacity charge, in line with the options considered by Ofgem in their network charging Significant Code Review as a way of collecting revenue that reduces distortions and improves fairness.

Question 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?

Whilst, in general, we do not have any comments on the proposed list of technologies, we note that a comment on the 'Treatment of power-gas-power systems' in Annex A of the consultation document suggests that "in practice, they would entail the export of hydrogen to a wider gas network and import of gas at certain times to generate electricity". However, we believe that it maybe more likely in this hydrogen scenario that it may "involve the creation of gas from electricity, and the subsequent storing and reconversion of that energy to electricity on-site," which, as noted in the consultation, would fall within the proposed storage definition.

Separately, it would be useful to understand whether the list of technologies will be made official through any changes to legislation and what the process for adding or removing technologies would be.

In addition, we agree with the principle in the consultation that the definition of electricity storage is not intended to capture network equipment whose primary function is not energy storage on the power system. We note in the consultation that storage operating under an exemption would be subject to FCLs as the meter point will need to be registered with a supplier in order to import / export electricity. We would encourage Ofgem to make it clear that it is not a requirement to meter small-scale applications that are currently owned by DNOs for the purpose of the safe and reliable operation of the network where they are not, for example, receiving revenue for the provision of ancillary services. The parallel consultation on the Distribution licence states that DNOs will be permitted to continue to own and operate such existing assets. A requirement to meter these assets would be impractical.

Changes to the licence application form (Appendix C – Proposed changes to the Application Regulations)

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

We do not have comments on the proposed changes to the Application Regulations.