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Clarifying the regulatory framework for electricity storage: licensing

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, storage, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users. EDF Energy is investing in storage and has built a 49MW battery at our West Burton site to provide Enhanced Frequency Response under contract to National Grid.

Both Government and Ofgem have a role to play in ensuring the regulatory framework supports the development of an efficient generation mix. It must be capable of providing secure, reliable power to customers, 24 hours a day, 365 days a year, at the same time as decarbonising the power sector. It must take account of the whole system costs of different technologies, including the costs they impose on the network and the costs of providing back-up generation to deal with intermittency.

In this context, we believe electricity storage assets (and indeed other decentralised energy sources) have an important role to play in a flexible, energy system. It is important therefore, that the regulatory framework keeps pace with innovative technologies such as storage in order to ensure that existing rules are not exploited, technologies are deployed based on market fundamentals and that shared costs are allocated fairly.

EDF Energy therefore supports the principle that where storage assets share similar characteristics and perform similar functions in terms of generating and exporting electricity compared to 'traditional' electricity generation, they should be treated consistently within the regulatory framework.

In light of the above, we welcome moves to introduce regulatory clarity on the treatment of electricity storage within the current framework. We believe ultimately, such clarity would be best provided by defining electricity storage as a distinct licensed activity through an amendment to the Electricity Act 1989. However, we acknowledge that the current availability constraints on parliamentary time may prevent the required regulatory clarity from being introduced in a timely manner. We therefore support Ofgem's proposal to define storage as a subset of generation within a modified generation licence on the basis that this could deliver early benefits and reduce the current uncertainty in the interim period.

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Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Guy Buckenham on 07875 112585, or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Angela Hepworth".

Angela Hepworth
Corporate Policy and Regulation Director

Attachment

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EDF Energy's response to your questions

Q1. 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?

In the period prior to legislation changes being introduced, moves to amend the generation licence to explicitly recognise electricity storage in the form proposed are supported. For storage asset operators who obtain a licence it will provide clarity as to how they will be treated within the regulatory framework and therefore will deliver on the commitments made within Ofgem's Smart Systems and Flexibility Plan in respect of such assets.

However, we would question whether there is a need to provide further clarity on how unlicensed small storage assets (either class exempt or individually exempt via approval of the Secretary of State) should be recognised within the market framework, where such assets would meet the definitions and the requirement to export as set out in the proposed generation licence. In particular, the extent to which final consumption levies should apply to such assets. For instance, is there an expectation that even small storage facilities should seek to obtain a generation licence?

Q2. Do you have any views on whether we should include 'in a controllable manner' in the definition of electricity storage?

In principle, we believe that a consistent definition of 'electricity storage' should ideally be used within both the licence and the wider industry framework such as the industry codes etc. The adopted definition needs to be future proof and generic enough to capture all relevant storage facilities.

It is noted that within the Grid Code industry is considering the adoption of additional wording (i.e. to include 'in a controllable manner') to that which is proposed for the amended Generation Licence. We currently are not convinced of the need for the additional wording. Furthermore, we would consider that if such additional wording was adopted that there would be a need for regulatory clarity to be provided as to on how 'in a controllable manner' should be interpreted.

Q3. 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 support measures designed to ensure that licensed storage facilities that will be treated as performing the activity of generation, and therefore avoid paying final consumption levies, will have as a primary function the export of electricity back to the distribution or transmission system. However, the inclusion of Condition E1 without any additional regulatory clarity on how 'primary function' should be interpreted introduces risks for storage asset operators as to the extent to which their activity is compliant or not,

and could potentially lead to some assets inappropriately avoiding final consumption levies.

Ofgem acknowledge that 'primary function' could be defined in many ways. However, we believe that without some additional regulatory guidance on how it will be appropriately interpreted, there is a risk that on its own, the proposed Condition E1 could have unintended consequences and involve certain licensed assets operating in a manner contrary to Ofgem's policy intent.

In addition, we would question how Ofgem intends to monitor compliance with Condition E1, over and above the proposed requirement to self-report.

Q4. 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 have any specific comments regarding the technologies included on the list set out in Appendix A. However, with no reference made to it either within the licence or the generation licence application form, we question what is the ongoing purpose of the list?

Changes to the licence application form

Q1. Do you have any comments on the proposed changes to the Application Regulations for electricity and gas licences?

We believe the inclusion of the additional question within Section 19 of the application form is appropriate for the purposes of electricity storage facilities. However, we believe that this question could be extended to include an explicit requirement for the applicant to provide information on how the storage facility will be operated, with reference to the requirements of the new Condition E1 in terms of primary function, and the extent to which the applicant is eligible for a generation licence.

**EDF Energy
November 2017**