



Clarifying the regulatory framework for electricity storage: licensing

Consultation by Ofgem

Response by E.ON

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?

1. As a mechanism to avoid the double charging of final consumption levies on electricity that is stored, we agree that, for storage sites that apply successfully for the generation licence, the proposal will deliver Ofgem's commitment outlined in the Smart Systems and Flexibility Plan.
2. For smaller storage sites we highlight that applying for and maintaining a generation licence may be impractical; Ofgem should consider additional measures to ensure the commitments of the Smart Systems and Flexibility Plan are delivered for smaller sites.
3. The changes are likely to increase the number of sites in scope of the licensing regime; many of these new licensees are likely to be smaller installations with limited experience of the generation licensing regime. It is important that Ofgem provides the necessary support to these new licensees and is sufficiently resourced to manage the likely increase in applications.

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

4. It is not clear what is gained by adding this additional element to the definition, other than consistency with the Grid Code.
5. Should this phrase be included in the definition it is important it is clarified, it may itself need a definition. Whilst it is reasonable that the output from a storage site should be controllable, the input may not be; the definition must make clear that storage facilities co-located with intermittent renewables (such as wind or solar) are included.

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.

6. It is important that any regime recognises that, whilst most "behind-the-meter" projects are likely to have self-consumption as their primary purpose, some may not. Where a project's primary purpose is not self-consumption it should also be able to avoid the double charging of consumption levies. We note that this is possible through metering dispensations and complex site settlement arrangements but would highlight that this is a complicated approach. A review

and simplification of the regulatory framework around such arrangements is likely to remove barriers for customers with smaller storage facilities.

7. The relatively simplistic categorisation of the purpose of each storage facility as either self-consumption or not, as proposed in this consultation, is a useful first step, but Ofgem should be thinking now about how to manage more complex and decentralised set-ups in future. An ability to separate self-consumption from other services at the same storage facility is going to be necessary in future to ensure the value of storage is fairly reflected in the market. For example, a domestic consumer with an electric vehicle whose battery is used to provide grid services overnight should not pay final consumption levies on the electricity supplied for doing this.
8. Ofgem should explore the risk that a third party could be used to avoid final consumption levies on what would otherwise be licenced electricity supply to end customers. For example, a third party could build, own and operate a licenced storage facility where it consumes licenced supply but then exports to a separate customer (so no self-consumption). As a generator, this third party may qualify for a class exemption¹ from the requirement for a supply licence thus avoiding final consumption levies on its supply to the end customer. When considering this Ofgem should take account of storage sites that are connected to on-site generation making legitimate licenced exempt supply. The addition of storage should make no difference to the treatment of the underlying supply to the end customer.
9. We note that the Electricity (Class Exemptions from the Requirement for a Licence) Order 2001 is complex and there is a risk of unintended consequences when considering supply from storage facilities. For example the Class B: Resale section is important for storage. We assume that a (generation) licence exempt storage facility being supplied Class C (supply licence exempt) electricity is not subject to the re-sale restrictions of Class B. This is because the storage facility consumes Class C electricity and then generates its own electricity which, subject to meeting the necessary conditions, it can supply as new Class C electricity or export to the grid without restriction.
10. We agree with Ofgem's principle that the avoidance of final consumption levies should only apply to sites that do not have self-consumption as their primary purpose. We agree with Ofgem that the primary purpose of a battery cannot be defined simply by the proportion of electricity used, but the proposed definition in the new licence condition E1 is vague.
11. To avoid unintended consequences Ofgem should expand the definitions of "primary purpose" and "self-consumption" to give more detail.

¹ E.g. Class C (on-site supply) of Schedule 4 The Electricity (Class Exemptions from the Requirement for a Licence) Order 2001



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?

12. We have no specific comments on the list of technologies but, given Ofgem recognises that the list is not exhaustive and that technology will evolve, we question why a list of technologies is necessary. We would be concerned that were such a list included in any policy, regulation or licence condition, it could raise doubts over the eligibility of new storage technologies.

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

13. No comment.

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