

## **Clarifying the regulatory framework for electricity storage: Statutory Consultation on electricity generation licence changes and next steps**

### **E.ON UK Response**

#### **Executive Summary**

E.ON is broadly supportive of Ofgem’s proposed addition of definitions of storage and Condition E to the Generation Licence on the basis that this supports a smarter, more flexible energy system which will ultimately benefit consumers.

As Ofgem states in its covering letter to the proposed changes, it is in accordance with the legislative intent of final consumption levies that these only be charged to the end consumer, and this drafting supports this.

We recognise Ofgem’s concerns about users “hiding” behind a meter and believe that, to an extent, this could be addressed by metering which would allow the reporting on the respective uses of the electricity. However, with metering as it presently stands, this presents real, practical difficulties - particularly when extended to domestic scale storage and even more so with aggregations of small units<sup>1</sup>. These are further outlined below.

We are keen to support the integration of storage into existing regulations where possible. However, we also think there is merit in considering separately licensing storage in the longer term and would ask Ofgem to consider the possibility of the proposed changes acting as interim legislation only.

#### **Commentary**

We agree with Ofgem’s proposed definitions of “electricity storage” and “electricity storage facility” on the basis that a battery does not contain electricity but converts it for storage and then reconverts it.

We are cognisant of the many different forms storage can take, such as within an Electric Vehicle (EV), in tandem with demand side response (DSR) or in conjunction with renewable generation assets. Our interpretation of “storage” as worded by Ofgem in the proposed definition in Appendix A of Ofgem’s *proposal to modify the standard conditions of all electricity generation licences* is that EVs are within scope. However, we would value confirmation as to whether or not this is the case.

We think there is merit in further exploring setting up storage as its own licensed entity, particularly if the scope includes EVs. Nonetheless, the proposed measures Ofgem outlines in its *Statutory Consultation on electricity generation licence changes and next steps* act as a good interim to allow industry to move forward in the short-medium term.

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<sup>1</sup> It is our interpretation that the proposed licence condition incorporates all sizes of storage.

We support Ofgem's position that electricity used for storage should not be charged final consumption levies (FCLs) and that only the final consumer should pay for these. In order to achieve this and ensure that the final consumer pays the correct level of FCLs, it is necessary to split out electricity used by the final consumer, including if this is at the same site as the battery, from the electricity that is either used solely for the purposes of storage or that which is exported to the grid. In our view, this can only be achieved through metering devices which provide visibility of the respective uses/flows of electricity both into and out of the storage unit. We believe that, whilst this is the fairest way to ensure FCLs are apportioned correctly, it will bring with it a high level of complexity and potential costs not only for storage participants - who will need to be able to demonstrate the end use of electricity - but also for Aggregators as well as the industry entities which calculate final consumption levies. This impact needs to be carefully considered.

As Ofgem notes, as there are several bodies involved in the calculation and apportionment of FCLs, there is not one single body responsible for apportioning FCLs. This adds a further layer of complexity to the process.

We also believe that questions of scale need to be carefully considered. According to our interpretation of the proposed legislation, domestic scale storage could choose to apply to become a licensed generator although we note this is likely to be too onerous for most residential customers. Assuming the licensee is both the owner of the storage unit and householder, it would be difficult for a supplier (or EMR Settlement for CM charges) to identify the electricity used for storage related purposes as opposed to power used for "final consumption" and thus due to pay the levies. Code modifications such as P375 and P379 should make this easier in future, but at present there is no standardised process to do this. If an extra layer of complexity is then added and aggregations of batteries fall within scope, the bodies calculating FCLs would potentially need to calculate several hundreds or even thousands of customers' charges. This raises the important question as to the level of granularity at which calculations are to be made – at a single consumer level or aggregation level?

If the licensing condition should indeed be applied to domestic scale storage (as is our interpretation) and we are correct in that it could also be applicable to EVs, the difficulty could lie in defining what constitutes electricity exclusively related to the storage facility. The varying uses of power could be subject to day on day change in this set up, which would need to be captured in order to ensure levies are applied correctly. This implies half hourly metering set ups again, which we do not think are in place or standardised at this point in time.

We also believe consideration needs to be given to ensure that when a customer changes supplier, the new supplier is privy to the necessary information needed to calculate FCLs. It is not clear, in this scenario, whether this responsibility (acquiring and providing the information to Ofgem) would sit with the existing supplier or the licensee.

At the larger end of the scale are batteries situated on industrial sites. At this end of the spectrum, as Ofgem rightly identifies, several set ups are possible. Amongst others, operating models could involve electricity stored in the battery being used by an onsite consumer whom

we understand would be subject to FCLs; it could participate as DSR; provide ancillary services; and/or it could be exported to the grid. Set ups could also involve an on-site customer on-selling electricity to another party. Prospective companies looking to invest in storage and customers of that power would need to be able to understand at the business case stage under which of these scenarios power would be exempt from FCLs. As Condition E currently stands, we do not think this is clear – take for example an onsite consumer selling to another customer or whether reactive power is in scope of the exemption.

As Ofgem notes, this is a time of unprecedented change in the energy industry, particularly in relation to networks. We believe it is essential that this licence modification aligns itself with current code modifications and any other network changes such as Project TERRE and the TCR.

We would be willing to support further consultations or workshops on this topic.