

Andy Burgess
Energy System Transition
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

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Dear Andy,

Clarifying the regulatory framework for electricity storage: Statutory consultation on proposed modifications to the electricity generation licence

Thank you for the opportunity to comment on Ofgem's proposed modification to the generation licence aimed at clarifying the regulatory framework for electricity storage.

If implemented, these licence modifications would introduce a definition for 'electricity storage' and 'electricity storage facility' to the generation licence and a new requirement for storage providers to record and make available information regarding their storage business. The reporting requirement is intended to facilitate the correct identification of licensed facilities as electricity storage and the correct calculation of relevant charges by other parties.

As we stated in our response to the October 2017 consultation¹, we support the approach of modifying the generation licence to clarify the regulatory framework for storage and to ensure that the costs of final consumption levies (FCLs) are allocated fairly.

Definition of storage and storage facility

We welcome the introduction of defined terms for 'electricity storage' and 'electricity storage facility'. We also agree with Ofgem's decision to omit the text 'in a controllable manner' from the definition of 'storage' on the basis it would have made the definition unnecessarily prescriptive.

Amendment of the definition of 'generating unit'

In the statutory consultation notice, Ofgem proposes to amend the definition of "generating unit" to read: "for the purposes of standard condition 18 (Generating Unit Availability) only, has the meaning given in that condition, which also applies to an

¹ Clarifying the regulatory framework for electricity storage: Licensing (October 2017)
<https://www.ofgem.gov.uk/publications-and-updates/clarifying-regulatory-framework-electricity-storage-licensing>

electricity storage facility'. The objective of this amendment appears to be to ensure that SLC 18 applies to storage. This is consistent with the principle in the October 2017 policy consultation, but the nature of the amendment differs from the approach taken in the 2017 policy consultation. In the policy consultation, Ofgem proposed to amend applicable sections of the condition to make it clear where it applied to storage. We consider this previous approach was a more conventional way of reflecting this amendment in the licence. Although the currently proposed amendment is simpler, we would encourage Ofgem to satisfy itself that there are no unintended consequences such as for the meaning of Generating Unit in the Grid Code.

Unexplained changes from the October 2017 policy consultation

In the October 2017 policy consultation Ofgem proposed to amend the term "generation business" to include express reference to the generation of electricity "including from electricity storage facilities". The statutory consultation omits this change and it is unclear why. Similarly, "Generation set" was also to be amended to include the phrase "including electricity storage facilities" and this has also been omitted without explanation. We believe this could have an impact on the operation of Condition 11 (Ancillary Services), which provides for a requirement for generation licence holders to offer ancillary services to NGETSO. It would be helpful if Ofgem could confirm and explain its position in relation to these two terms.

Approach to self-consumption

We are pleased to see that Ofgem has considered the concerns raised by us and other stakeholders over the proposed requirement in the October consultation not to have self-consumption as a primary-function when operating the storage facility. We consider that the proposed new reporting requirement (SLC E1) is a more pragmatic way than the proposed prohibition of ensuring storage providers are not subject to FCLs through the correct identification and reporting of the volumes of electricity exclusively related to the storage facility.

Information to be provided

We are unable to comment fully on the list of information to be provided until there is clarity from Ofgem on how suppliers are expected to use this information. However, by way of a preliminary observation, we note that paragraph 3b(iii) of the information requirements may raise issues of commercial confidentiality. This will depend on what Ofgem wishes to see published about "the relationship between the final consumer(s) and licensee". We would encourage Ofgem to be more specific about the level of detail it expects to see made available under 3b(iii).

Role of suppliers

In abandoning the proposed requirement not to have self-consumption as the primary function of a storage facility and replacing it with an information provision requirement, Ofgem is effectively putting the onus on suppliers to determine whether a storage facility qualifies for exemption from FCLs. To minimise the burden on suppliers it is important that suppliers are able to make straightforward decisions based on the evidence provided, without the need to exercise judgement or make further enquiries of the storage licensee.

Accordingly we welcome Ofgem's commitment to update the guidance for suppliers on RO and FIT schemes to clarify what information suppliers would be expected to hold on

storage sites operated by a generation licence. We also note that work is being progressed separately to support the correct calculation of CfDs and the Capacity Market scheme charges for storage (by Elexon in conjunction with the Low Carbon Contracts Company and the EMR Settlement Ltd). In each case it is important that the updated guidance is subject to an appropriate consultation process and suppliers are given sufficient time to test and implement any new processes and systems changes.

Ofgem suggests (on page 10 of its letter) that the information provided under SLC E1 would help suppliers to 'better understand the electricity usage expected on site and *spot anomalies* in the flow of electricity imported and exported.' It is unclear to us exactly what Ofgem has in mind, but if the idea is that suppliers would be required to undertake ongoing monitoring of electricity flows with a view to detecting anomalies, this has the potential to be considerably more burdensome than simply assessing the information provided under SLC E1, and we would urge Ofgem to consider how any such burdens can be minimised.

Please do not hesitate to contact me or James Soundraraju (tel 0141 614 2421, jsoundraraju@scottishpower.com) if you have any questions arising from this response.

Yours sincerely,



Richard Sweet
Head of Regulatory Policy