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By email only

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Shell Energy Europe response the statutory consultation on *electricity generation licence changes and next steps to incorporate electricity storage*

Dear Sir/Madam

Shell welcomes the opportunity to respond to Ofgem's statutory consultation to include electricity storage in the electricity generation license.

We support Ofgem's objective to provide a level playing field for electricity storage and clarify the treatment in the regulatory framework, in line with the ambitions and actions set out in the 2017 Smart Systems and Flexibility Plan¹.

The proposal to include electricity storage in the generation license is a welcome clarification and provides industry with the necessary guidance to continue to update relevant requirements to provide a level playing field for storage for the application of network charges and final consumption levies.

While the proposed approach to including electricity storage in the generation license is straight forward, the implications of the decision for the treatment of different types of storage facility with respect to network charges and final consumption levies are not.

We understand that the treatment will depend on whether the storage facility:

1. is large enough to require a generation license;
2. is owned or operated by a party with a generation license;
3. is co-located either with demand or generation, where storage co-located with demand at domestic, micro-business or larger industrial sites may also be treated differently; and
4. how associated metering arrangements have been set-up at co-located sites.

¹ <https://www.gov.uk/government/publications/upgrading-our-energy-system-smart-systems-and-flexibility-plan>

In addition, and as explained by Ofgem in its covering letter, there are several ongoing GB network code modifications for electricity storage that we expect to be approved shortly, that are also linked to the Targeted Charging Review.

To address the potential complexity associated with the implementation of the new arrangements and provide further clarity, we would welcome an industry workshop on electricity storage to:

1. draw a line under the good progress that has been made in implementing the Smart Systems and Flexibility Plan;
2. explain in detail the new requirements and implications for different types of electricity storage; and
3. identify further priorities and actions to enable the competitive deployment of storage and ensure a level playing field.

Related to this last point, in the 20 December decision letter to amend the electricity distribution license to enable the competitive deployment of storage², Ofgem noted that:

1. it viewed clarifying the existing regime, to prohibit DNOs from operating but not owning electricity storage, as an important first step;
2. this first step would ensure that minimum protections are in place to manage potential DNO and IDNO conflicts of interest as markets for flexibility develop; and
3. in the Clean Energy for all Europeans package³, the European Commission was proposing even stronger unbundling rules to prohibit DNOs from owning, managing or operating storage facilities – except in very limited circumstances.

In our response to the statutory consultation, we felt that Ofgem already had sufficient mandate (and reason) to introduce stricter unbundling requirements – and to align those with the anticipated Clean Energy Package requirements in one step, as opposed to taking two steps.

Now that the Clean Energy Package has been approved and adopted by the European Council and European Parliament, we suggest that Ofgem start the process to update the electricity distribution license to ensure alignment with the new stricter requirements of the new European Electricity Directive 2012/27/EU⁴ on DNO unbundling.

We consider that starting the process now would be a least regrets approach as:

1. most importantly, we understand from the December 2018 decision letter, that Ofgem supports the principle of implementing stricter unbundling requirements in line with Clean Energy Package; and,
2. the process for the first step to introduce unbundling requirements in the electricity distribution license took at least 17 months (with publication of Smart Systems and Flexibility Plan in July 2017 and the final decision in December 2018) and Member States only have 18 months to become compliant with the new Electricity Directive.

² <https://www.ofgem.gov.uk/publications-and-updates/decision-enabling-competitive-deployment-storage-flexible-energy-system-changes-electricity-distribution-licence>

³ <https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union/clean-energy-all-europeans>

⁴ https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2019.158.01.0125.01.ENG&toc=OJ:L:2019:158:TOC

We would welcome feedback from Ofgem on whether and when it intends to start the process to update the electricity distribution license to comply or align with the stricter unbundling requirements in the Electricity Directive. In our view, starting the process now would provide a clear and predictable regulatory framework for market participants – and represents a least regrets approach for both industry and regulator.

Yours sincerely

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