



Making a positive difference
for energy consumers

Electricity distribution licensees

Direct Dial: 020 901 7196

Email: flexibility@ofgem.gov.uk

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Dear licensee,

Enabling the competitive deployment of storage in a flexible energy system: consultation on changes to the Prohibition of Generation Guidance following changes to conditions 31D and 43B of the electricity distribution licence

The Electricity and Gas (Internal Markets) (No. 2) Regulations 2020 No. 1401¹ amended licensees standard conditions, including among other changes, to transpose Article 36 of EU Directive 2019/944 (commonly referred to as the Clean Energy for All Europeans Package² (CEP)). As a result, we are seeking your feedback on new reporting requirements that we propose to include in the Prohibition on Generating Guidance (POGG) - set out within the amended standard electricity distribution licence conditions 31D and 43B³.

As part of the unbundling regime to enable the competitive deployment of storage in a flexible energy system, in December 2018 we introduced a new condition to the Electricity Distribution licence⁴ to ensure that Distribution Network Operators (DNOs) and Independent Distribution Network Operators (IDNOs) cannot carry out any generation activities, including electricity storage.

More recently, in December 2020, we implemented the amendments to licence conditions 31D and 43B, for IDNOs and DNOs respectively⁵, that transpose into the GB regulatory

¹ <https://www.legislation.gov.uk/ukxi/2020/1401/made>

² <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019L0944>

³ <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Distribution%20Consolidated%20Standard%20Licence%20Conditions%20-%20Current%20Version.pdf>

⁴ [Decision on enabling the competitive deployment of storage in a flexible energy system: Changes to the electricity distribution licence | Ofgem](#)

⁵ [The Electricity and Gas \(Internal Markets\) \(No. 2\) Regulations 2020 \(legislation.gov.uk\)](#)

framework Article 36 of the CEP. This article sets out that DNOs must not “own, develop, manage, or operate energy storage facilities, ” which aligned with our earlier licence requirements, but it also included some more specific requirements associated with this obligation that our earlier licence conditions did not include, hence the amendments.

The POGG provides guidance on the application of conditions 31D and 43B. It also lays out the details on the exceptional circumstances in which operation of generating assets may be permissible for relevant distribution licensees and the criteria against which applications for a direction to operate generation will be assessed. The POGG thus lays out three exception categories under which a licensee may operate an electricity storage facility:

- Category A – Island-based networks;
- Category B – Generation for specific authorised activities; and
- Category C – Generation pursuant to a direction by the Authority.

As a result of the recent licence modifications which came into effect on 31 December 2020, we are proposing to amend the POGG to provide further guidance to licensees on their reporting obligations. Amendments to the current POGG will be structured as additional chapter (Chapter 7) to the current document, which was published in September 2018⁶.

To support market transparency, where licensees continue to own, manage, or operate generating assets under a Category C exception, section 7.6 in the POGG details new reporting requirements, whereby licensees are required to report to the Authority, at least every five years, the following information as a minimum:

- Licensee details
- Asset location
- Technical specifications
- Historical description of usage
- Market evaluation
- Risk analysis
- Future changes

⁶ <https://www.ofgem.gov.uk/publications-and-updates/decision-enabling-competitive-deployment-storage-flexible-energy-system-changes-electricity-distribution-licence>

Alongside this letter, we have published proposed changes to the POGG to reflect the new reporting requirements as set out in conditions 31D and 43B. We have highlighted in yellow the text in the POGG that we propose to add.

We are now consulting on this draft guidance and we welcome comments on the proposed drafting. To provide your specific comments, please send responses by 24 March 2021 to flexibility@ofgem.gov.uk. Should you have any questions, please contact Chiara Redaelli (Chiara.Redaelli@ofgem.gov.uk).

Unless marked confidential, all responses will be put in Ofgem's library and on our website, www.ofgem.gov.uk. You can ask for your response to be kept confidential and we will respect this, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

If you would like your responses to be kept confidential, clearly mark the document/s to that effect and include the reasons for confidentiality.

After considering your views on this guidance, we will issue our final guidance document on the licence changes. We expect the final guidance document to be published in Spring 2021.

Best regards,

Chiara Redaelli
Senior Economist, DSO and Whole System Coordination