



Making a positive difference  
for energy consumers

Electricity distribution licensees  
and other interested parties

Direct Dial: 0207 901 7196  
Email: [flexibility@ofgem.gov.uk](mailto:flexibility@ofgem.gov.uk)

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Dear licensee,

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

In February 2021 we consulted on proposed changes to the Prohibition on Generating Guidance (POGG) to clarify our expectations with respect to compliance with licence conditions 31D and 43B (for IDNOs and DNOs respectively) of the electricity distribution licence<sup>1</sup>. These licence conditions were amended in December 2020 to implement Article 36 of EU Directive 2019/944 (commonly referred to as the Clean Energy for all Europeans Package or CEP)<sup>2</sup>.

In our February consultation we proposed to introduce further guidance regarding the reporting requirements on network licensees that own and operate a generating facility under Category Exception C (Generation pursuant to a direction by the Authority). Under the new guidance licensees would need to submit to the Authority - before the end of the derogation period or at least every five years - a report detailing the willingness of third parties to own, develop, operate or manage such assets in a cost-effective manner. In the guidance we have set out what information we expect licensees to report on, as well as the

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<sup>1</sup> The consultation can be found here: [Prohibition on Generating Guidance \(POGG\) | Ofgem](#)

<sup>2</sup> See: [Electricity Distribution Consolidated Standard Licence Conditions \(ofgem.gov.uk\)](#)

steps we will take after receiving the report. These steps would typically involve holding an external consultation to seek stakeholder's feedback on the report and willingness to operate the generating asset; based on feedback and third parties' interest, issuing a decision on whether to extend the derogation granted to the licensee or direct the phase-out of the asset; and discussing with the licensee reasonable compensation when appropriate. The proposed changes can be found in Chapter 7 of the POGG.

### **Feedback from stakeholders**

We have received four responses to our consultation. These can be found on our website. All respondents agreed with our proposed text, only suggesting some editorial changes to make it more explicit that the unbundling requirements also extend to ownership of generation assets.

One stakeholder raised a question regarding the treatment of electricity produced by on-site generation that a licensed operator owns and/or operates as part of their energy management activities (covered by Category Exception B – Generation for specific authorised activities), when a small amount of electricity is sold to a supplier under a FIT scheme.

Article 36 prohibits any form of sale of electricity by a network company. However, we understand that there may be unintended consequences arising from operating assets behind the meter to minimise the business' carbon footprint, such as a temporary surplus of electricity generated by renewable sources that cannot be stored on site (for example, when electricity is generated by solar panels and storing electricity on site is not an efficient solution). To address this unintended consequence - and only in this very limited circumstance - we recognise that some electricity could be exported to the grid even if on-site generation capacity was installed to match demand.

Under this specific circumstance we think these schemes are in line with the intent of the licence condition and with the spirit of the generation unbundling policy because we would also consider the benefits to consumers in having network companies reduce their carbon footprint .

The licence condition requires on-site generation capacity to match demand, hence we expect any selling of electricity to be carried out as a way of exception. Companies should let us know should this this scenario arise in any of their sites, and we would consider asking the company to report to us an annual basis on the electricity exported to the grid and produced by low carbon on-site generation.

### **Our decision**

After reviewing stakeholders' feedback we have decided to implement the changes to the POGG as proposed in our consultation. We have amended the text to reflect some editorial

changes as per stakeholder's suggestions. We have also added a paragraph clarifying our views with respect to the treatment of electricity sold that was generated by on-site generation that falls under a Category Exception B (Generation for specific authorised activities) – these are highlighted in yellow in the POGG.

These changes to the POGG will come into effect the day after the publication of our decision.

Yours faithfully,

**Louise Van Rensburg**

Head of DSO and Whole Systems Coordination

**For and on behalf of the Authority**