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Dear Andrew,

**Enabling the competitive deployment of storage in a flexible energy system: changes to the electricity distribution licence**

National Grid Ventures (NGV) welcomes the opportunity to respond to this consultation. NGV is a new ring-fenced division of National Grid plc, responsible for both developing and operating businesses in competitive markets across our UK and US territories. NGV's portfolio includes:

- Joint stakes in all the UK's existing electricity interconnectors to continental Europe – 3GW of capacity that provides consumer benefits by bolstering security of supply, facilitating the integration of renewables and enabling access to competitive supply;
- A pipeline of further interconnectors to Europe – including 3.4GW currently under construction;
- Europe's largest LNG terminal – with capacity equivalent to 20% of UK gas demand, and;
- Over 11 million industrial, commercial, and domestic gas meters in the UK.

Through these activities, we have developed and demonstrated our credentials as a safe, innovative, and consumer focussed developer.

NGV has undertaken analysis of the storage market and engaged with consumers who would potentially benefit from deploying electricity storage solutions. As a result, we understand the technical, commercial, consumer, and regulatory issues associated with electricity storage in detail.

Having reviewed the consultation, and understood Ofgem's proposals for regulating electricity storage, we have a couple of specific issues we wish to address. Firstly, the classification of electricity storage as generation appears to us a generalisation and false in many situations. Secondly, we believe that Ofgem's concerns around potential conflicts of interest are manageable through existing industry mechanisms and best practice. Finally, we believe that consumers will derive most benefit where competition is not artificially and unnecessarily restricted.

These points are expanded below. If you have any questions on the issues raised please contact Jonny Gallagher ([jonny.gallagher@nationalgrid.com](mailto:jonny.gallagher@nationalgrid.com))

Yours sincerely,



Terry McCormick  
Head of Markets and Regulation  
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### **Classifying storage as generation**

At Section 1.14 of the consultation, Ofgem justify the conclusion to classify storage as generation because "generation and storage share similar characteristics and perform similar functions in terms of generating and exporting electricity to the grid." This appears to significantly underestimate the role that storage can play within the electricity system.

While storage can certainly be used for exporting to the grid, there are many other applications for electricity storage. These include managing on-site self-consumption of renewables, providing an uninterruptable power supply, time shifting consumption from the grid, or for powering mobile technology such as electric vehicles. It is not clear that classifying these activities as generation is appropriate, or that it will deliver the best outcome for consumers.

Even where storage exports to the grid, this is arguably more analogous to interconnection than generation. Where interconnectors allow physical gaps in supply and demand to be bridged, storage allows the bridging of temporal gaps. Thus, treating storage as generation risks significant inefficiencies, as developers would not be subject to third party access requirements unlike interconnectors or gas storage facilities.

### **Potential conflicts of interest**

We welcome an open and transparent discussion around the role that affiliates of network companies can play in electricity storage. In the consultation, Ofgem have made it clear that operation of storage assets could be carried out by "a legally separate affiliate of the DNO". This is a sensible approach, one which we believe should be extended to TSO affiliates.

We understand that some market participants have concerns about the potential conflicts of interest for incumbent network operators entering the storage market. These concerns can be fully addressed and mitigated using business separation rules that are overseen by Ofgem.

Business separation arrangements already have a demonstrable record of accomplishment. For example, business separation arrangements governing National Grid's role as EMR delivery body, bidder for OFTOs, developer of interconnectors, and potential CATO bidder are robust and successful.

Based on such separation rules, affiliates of TSOs, such as NGV as an affiliate of National Grid Electricity Transmission (the incumbent UK TO and SO), should be allowed to participate in the ownership and operation of electricity storage.

NGV is substantially distinct from NGET; it has different management reporting lines, incentive structures, and is located in different offices. National Grid is diligent in complying with robust licence requirements governing separation. Ofgem's ability to verify the presence and effective working of these safeguards means that they will be effective.

We believe that Ofgem has all the tools it needs to manage, mitigate, and dispel perceptions of conflicts of interest when affiliates of incumbent network operators are involved in electricity storage – and we see market benefit to doing so. Indeed, given the verifiable effectiveness of business separation arrangements in previously accepted circumstances, it would be disproportionate to rule them an insufficient safeguard for the case of electricity storage.

### **The benefits of competition**

As a commercial developer, we believe that the interest of consumers is best protected and advanced through opening up markets to as many players as possible. Our engagement with market participants, both other developers and consumers, indicates that there is a widespread appetite for NGV to be involved in this space.

Our market engagement established that different consumers have radically different needs for electricity storage. There will be no one size fits all solution in this space, and Ofgem should be encouraging the participation of as many developers as possible to ensure that consumers have a wide choice of options to suit their different needs both now and in the future.

A blend of our reputation for safety and reliability, our experience in developing and delivering innovative solutions, and our risk appetite means that certain consumers see us as the ideal partner. In addition, our conversations with consumers indicated that our potential commercial offering, based on an ability to manage technology risks, commercial issues, and offer efficient financing solutions was uniquely attractive to them.

Therefore, we firmly believe that our participation could help advance the market in a way that benefits consumers and is congruent with Ofgem's responsibilities to ensure that there are no conflicts of interests affecting the decision making of market participants.

