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

Dear Mr Andrew White,

Please find attached our response to the above consultation, submitted on behalf of npower and the main innogy businesses within the UK.

innogy SE is a newly established European energy company. Formally part of RWE AG, innogy SE has three business segments: Grid & Infrastructure, Retail and Renewables. The UK is a core territory for both our retail and renewables segments.

innogy Renewables UK Ltd is one of the UK's main renewable electricity developers. We operate over 1GW of renewable generation, including onshore wind, offshore wind and hydro.

npower, part of the npower Group plc, is one of Britain's leading energy companies. npower Business Solutions; part of npower Ltd has recently launched 'Energy HQ' a complete one-stop-shop of all of the tools and services businesses need to tackle energy as a strategic cost, including the provision of DSR aggregation services for network operators.

innogy has also recently completed the purchase of BELECTRIC Solar and Battery GmbH, placing innogy as a major player for utility scale PV plants and battery storage systems. In the UK BELECTRIC was awarded a contract to deliver 10MW in the first EFR tender to National Grid.

Please see our comments in reference to the questions that were asked. I hope that the information we have given provides a satisfactory response. If you require any further information, please do not hesitate to contact me.

Yours sincerely,

Jag Bhohi

Regulation

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Consultation Response

Proposed new condition in the electricity distribution licence

Question 1: Do you agree that the proposed new condition will ensure legal unbundling of DNOs from the operation of storage that benefits from an exemption to hold a generation licence?

No

The proposal is currently too weak and does not fulfil the conclusions of the Smart Systems and Flexibility Plan regarding network company ownership of storage.

In addition to the proposal above, it would be our preferred future approach to see the full unbundling of both ownership and operation to ensure DNOs and DSOs have a clear regulatory perspective and do not seek to own and/or continue to own storage in the interim.

We would prefer that the direction provided in the draft Clean Energy Package is adopted in the UK (The “European Commission is proposing to prohibit DNOs from owning, managing or operating storage facilities – except in very limited circumstances”).

This would unequivocally fulfil the conclusions of Ofgem’s Smart Systems and Flexibility Plan “that network operators should not own or operate storage”.

Our current position is that if ownership is permitted then the operation of any DNO/DSO owned generation or storage should be managed through an entirely independent 3rd party and not simply a legally separate affiliate. One of the more critical points is that the DNO’s (potentially legally separate affiliate) DSO should not be permitted to operate storage owned by the DNO.

Question 2: Do you agree that the same principles of unbundling should apply to IDNOs?

Yes

It is our view that there should be no difference. We believe that this will likely become more important in a future scenario of the industry with more local balancing and development requirements of private networks, for example.

Do you have any views on the application of the specific new condition proposed here applying to IDNOs?

No

We believe that the application of the new condition should apply equally to DNOs and IDNOs.

Question 3: Do you agree that DNOs should be able to directly own and operate small-scale storage for the purposes of providing uninterruptible power supplies (UPS) at substations?

It is our view that this would possibly depend upon the definition of small scale (as the next exemption appears to provide for systems up to 1.5MW) which would be sizeable.

We would also require more clarity surrounding the impacts upon electricity. Would such a storage system (designed for UPS) also have built-in capability / adaptability to provide reactive power or other services that may need to be procured in the future?

It is important to maintain the overall objective that network companies do not participate in competitive markets. Ofgem must ensure that this exemption does not contradict this aim i.e. the small scale storage should only be used exclusively for the purposes of UPS.

Do you agree that DNOs should be able to directly own and operate small-scale storage for the time-limited purposes of emergency restoration and maintenance? Do you think DNOs should be able to directly own and operate storage for any other specific applications?

We believe that this would be dependent upon economic assessments as well as more analysis of the frequency of these requirements in a future world. Another thing we would consider is the lifecycle of existing DNO fleets of mobile generator units.

For example, it may be difficult to consider the same activities for a generator / storage system, given the need for storage to be charged. We would also consider the timescales that such units would be idle therefore, as such, the services that should be procured based upon this consideration. The range of sizes is quite significant and may it be better to reduce the size to avoid such issues.

It is important to maintain the overall objective that network companies do not participate in competitive markets. Ofgem must ensure that this exemption does not contradict this aim.

Question 4: Do you have any views on the treatment of existing islanded system generation currently owned by DNOs?

Yes

We agree that the existing system should continue only under the caveat that any future or replacement schemes should be tendered for as outlined within the consultation.

Do you have any views on the treatment of future use of DNO owned and operated generation of storage in similar island situations?

Yes

As above, there is a requirement for stringent controls that will ensure the most cost effective solutions. These should be tendered for in a transparent way and managed from front to back. It is also our view that there should always be the inclusion of open procurement opportunity for any future systems.

Guidance document

Question 1: What are your views on the three high-level criteria proposed as the basis for assessing applications for consent?

In the first instance, we would require clarity upon how any such criteria will be tightened as the DNOs transition to DSOs.

Regarding the 3 criteria:

- Demonstrating that the market cannot provide effective solutions. There should be a need to ensure that the guidance is clear on sufficient and timely information being available.
- Storage is identified as the most economic and efficient solution; Does this only occur once point 1 (above) has taken place? Also, the preferred solution must also outline time boundaries in order for required system support. Emphasis on time needs to be placed and timelines minimised wherever possible so that DNOs cannot continue to operate storage over the long term.
- Minimising conflicts of interest and mitigating potential distortions to the market; this must be considered as part of any upfront procurement process and what will be included.

Do think there are other criteria which should also be included?

Yes

We believe that there is a requirement for regular review periods, within which, assessments are completed as to whether there is commercial interest in buying out the storage assets. Also, to provide the service to the DNO / DSO (in a way which does not undermine the commercial impacts on consumers) but makes clear to DNOs that market failure may only be a temporary issue and that the intent will always be to enable storage to be owned and operated by third parties on a commercial basis. It should also be noted that the network characteristics are dynamic and developing rapidly therefore the requirement for storage at a particular point on the network may evolve over time as the mix of connected assets changes.

Question 2: Do you have any other views on the scope or content of the proposed guidance document?

Yes

The guidance must be clear and unambiguous in its intent to only allow DNOs / DSOs to own and (under very limited applications) operate storage.

Please note that it is our position that storage should be delivered through the commercial sector.

Question 3: Do you have any views on the process that should apply to the assessment of applications?

Yes

It is our view that indications of plans to apply for storage must be in line with previous publications of the DNOs regional areas of constraint, heat maps, stakeholder engagement on the future likely areas of congestion etc. recognising that micro and macro network dynamics may evolve over time as the mix of connected assets and resultant requirement for storage may change. We believe that this will ensure that any failure from the private market to deliver has been communicated with sufficient transparency.

Reporting and Monitoring

Question 1: Do you have any views on reporting requirements for DNOs that own/operate storage assets?

Yes

We believe that the level of utilisation of the asset(s), associated costs, and opportunities provided outside of storage (i.e. for DNO specific purposes) need to be reported upon in addition to those outlined within this consultation.

Question 2: Are there any particular types of data that, if published, could facilitate entry of competitive parties?

Yes

Please refer to answer above (Question 1 regarding Reporting and Monitoring)

We are also in agreement with the specific types of data outlined in Paragraph 4.7.

Is there any other information or data that you think DNOs hold about the deployment of storage on their networks that they could usefully make public?

Yes

We believe that a reporting framework outlining the following would be of use;

- The extent of any existing storage assets deployed across the DNO's networks (or elsewhere acting in an iDNO capacity) that are owned and/or operated directly or by a subsidiary.
- whether or not the asset was installed with subsidies from any grants e.g. Ofgem LCNF/NIC/EU sourced funding
- Information upon the local requirements that resulted in the asset installation and the subsequent results of activity including any markets that have been accessed commercially.