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

Dear Andrew,

SmartestEnergy welcomes the opportunity to respond to Ofgem's consultation on the proposed new licensing arrangements.

SmartestEnergy is an aggregator of embedded generation in the wholesale market, an aggregator of demand and frequency services and a supplier in the electricity retail market, serving large corporate and group organisations.

Please note that our response is not confidential.

Overview

We consider that there are no normal circumstances under which Distribution Network Operators (DNOs) should own or operate storage.

Allowing DNOs to own storage, even if only for emergency purposes would introduce a market distortion as the prices available to non-DNO assets will be depressed because of the extra safety net afforded.

Alongside this distortion, allowing DNOs to maintain ownership of storage assets introduces the possibility of a conflict of interests when choosing which assets to dispatch, creating an unlevel-playing field. Given the regulator's preference to see the transmission system ownership and operation unbundled, it is only appropriate that the same logic is applied to distribution networks, particularly in the context of a transition to Distribution System Operators.

If it is decided to go ahead with this change, we would strongly advise that there are clear obligations on DNOs in relation to justifying the need for such assets where the market has not identified a need.

We answer the questions below in the order in which they appear in the consultation document.

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?

Legal separation does not go far enough. Whilst a legally separate entity might operate the battery, it is not inconceivable that two people involved on both sides of the operation may share information. If the DNOs still own the assets, then any revenues generated from use of such assets also cause problems when considering allowed revenues. DSOs could also be responsible for creation of flexibility markets in the future, which could leave this arrangement open to manipulation. The TSO and DSOs should be in alignment in the way they procure solutions (through markets).

Question 2: Do you agree that the same principles of unbundling should apply to IDNOs? Do you have any views on the application of the specific new condition proposed here applying to IDNOs?

We consider what we have outlined above should also apply to 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? 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 consider that the market is, and should be, used to prevent the scenarios described. The likes of black start contracts should be extended to distributed generation, or a product for the restarting of a distribution network should be created.

Question 4: Do you have any views on the treatment of existing islanded system generation currently owned by DNOs? Do you have any views on the treatment of future use of DNO owned and operated generation of storage in similar island situations?

Islanded system generation should be able to use storage. This represents a unique situation as there are no other viable solutions to ensure security of supply for consumers. A legally separate entity operating the storage is therefore an acceptable solution.

Guidance Document

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

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

We are surprised that Ofgem are consulting on the structure of a guidance document before they have even received responses from industry as to whether DNOs should own operate storage. It is inappropriate to do so, and risks making it seem as though the consultation process is a formality in the eyes of the regulator, who will pass their preferred changes irrespective of the views of industry.

As a result, there is no requirement to carve out such caveats. DNOs should enter into commercial agreements with service providers for these services in order to maintain market integrity. If DNOs feel unable to procure such services under the status quo, they should have the flexibility to procure such services as they transition to DSOs. The Electricity Networks Association Open Networks workstream and recent consultation on promoting access to flexibility markets for distributed energy resources would be a good environment to progress such work.

Notwithstanding our previously outlined concerns, we consider that the term 'efficient solution' is too open ended. Even if a DNO could provide power via storage at a lower cost, it is not appropriate for the DNO to become a market participant. This undermines the economics of the market.

Finally, DNOs should not be the final arbiter of how to minimise their own distortions and conflicts of interest, for obvious reasons.

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

Please see answer to Q1.

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

Please see answer to Q1.

Reporting and Monitoring

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

Please see previous answers.

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



Where batteries are saving DNOs forecast reinforcement costs, they should instead notify potential developers of where they require investments in storage.

Should you require further clarification on this matter, please do not hesitate to contact me.

Yours sincerely,

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