

Storage and the regulatory framework

Part 2

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Recap of 11 November discussion

- The following regulations restrict DNO use of storage:
 - Third package restrictions on DNOs engaging in supply
 - Revenue sharing arrangements
 - De Minimis limits on non-regulated assets
- DNOs taking and ‘spilling’ electricity at scale may have an impact on the market
 - Increases losses in some settlement periods
 - Could impact on balancing prices and settlement, imposing costs on customers
- No regulatory barriers to third parties building storage – competition concerns covered in these slides.

Outstanding issues to cover today

- Is the EU Third Package restriction on DNOs' ability to sell electricity a barrier or a necessary constraint?
- How does storage fit into the current balancing and settlement arrangements?
- How could DNOs be involved in storage without distorting the market?

Aim is for WS6 to pull together views into a paper on how storage fits into the current regulatory framework.

The paper will be circulated for comments from WS6 members before submission to the SGF.

Potential market distortion issues

Are there any potential market distortion issues that are worth discussing in the storage paper? What is the impact of these, and are there ways DNOs can own/operate storage without distorting the storage market?

- Is the Third Package prohibition on DNOs selling electricity an unnecessary barrier preventing DNOs making best use of storage services, or is it necessary to prevent market distortion?
- DNOs potentially have lower cost of capital than many third parties, potentially making investments in storage assets cheaper.
- DNOs may not need planning permission for installation of assets if co-located with existing infrastructure. Third parties would have to spend time and money getting planning permission.

Next steps

Draft paper on how storage fits into current regulatory arrangements. Plan is to complete the first draft in mid-February.

- Regulatory implications
 - Barriers to DNOs engaging in supply of energy
 - De Minimis limits on revenue and investments for non-regulated assets
 - Treatment of revenue
 - How storage fits into BSC arrangements
- Implications for settlement and balancing
- Potential competition issues
- Outline of models that may be possible under current regulations – referring to innovation projects

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