

Attention: Chiara Redaelli
E: flexibility@ofgem.gov.uk

27 November 2017

Dear Ms Redaelli,

The Low Carbon Contracts Company (LCCC) welcomes the opportunity to respond to your consultation on '[Clarifying the regulatory framework for electricity storage: licensing](#)'.

The LCCC is a private company wholly owned by the Secretary of State for Business, Energy and Industrial Strategy, whose primary role is to be the counterparty to Contracts for Difference (CFDs) awarded to low carbon generators. As part of this role, LCCC forecasts and sets the Supplier Obligation Levy that funds CFD payments. LCCC currently has around £55bn of contracts under management.

LCCC also plays a significant role in the delivery of the Capacity Market scheme (on behalf of the Electricity Settlements Company), including managing credit cover ahead of auctions, and post-auction meter verification and payments.

The LCCC and ESC are supportive of Ofgem's flexibility agenda, recognising the significant system benefits that flexible technologies such as Storage and Demand Side Response could deliver.

We therefore agree with the objective of ensuring that grid connected Storage facilities should not be exposed to Final Consumer Levies (FCL).

We are responsible for setting the CFD levy, which involves forecasting payments to generators based on net eligible demand, providing forward estimates of levies to suppliers up to 15 months in advance and fixing payments a calendar quarter in advance. Our responsibilities under the CFD and CM schemes would therefore require us to implement the changes to CFD and CM levy and settlement process following any changes in regulation.

Our current working assumption is that these would work in a similar manner to the EII exemption scheme but also capture CM payments. We are therefore anticipating that there will be a similar scale of impact on our CFD levy forecasting and our CFD and CM settlement processes. We will require further implementation details to undertake the necessary detailed impact assessment and provide estimates on implementation timelines.

We would also like to ensure that our approach to charging end consumer levies is consistent with Ofgem's expectations. Unlike generators that extract their revenue from producing electricity, an electric battery storage facility generates revenue by ensuring already produced electricity used at the point of most value.

As such these facilities – which do not directly produce electricity – could be described as system optimisation assets and it is not clear from the current consultation if Ofgem expects

us to treat storage identically to other generation licensees. It is also currently unclear if these exemptions apply to all imported electricity or should be calculated imports net of exports.

We also agree that there is a need to protect against end users of electricity mitigating their exposure to FCL charges by placing storage on their sites with an explicit view to avoid FCL charges.

Part of a thorough impact assessment would need to consider how these rules changes would interact with EII exemptions and private wire network arrangements. Private wire networks could include recipients of CM payments, environmental support schemes payments (such as CFDs) and EII exemptions.

Finally, we do not have a view on the change to the definition of storage that is being consulted on. We do however believe it is important that, where the definition is updated, this should also be reflected in the Capacity Market and Contract for Difference frameworks. This is important to avoid unnecessary complexity in the market.

We therefore look forward to having the opportunity to engage with Ofgem on these issues in more detail to ensure successful implementation of this proposal.

Kind Regards,

Alex Coulton

CfD Policy and Strategy Manager

e: alex.coulton@lowcarboncontracts.uk

t: 020 7211 8445

m: 07539 001 974

Ruth Herbert

Head of Strategy & External Relations

e: ruth.herbert@lowcarboncontracts.uk

t: 020 7211 8183

m: +44 (0) 7747 646588