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Clarifying the regulatory framework for electricity storage: licensing

Dear Chiara,

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.

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

Question 1: Do you agree that the form and content of the licence as proposed in this consultation will achieve the purpose and deliver what we committed to in the *Smart Systems and Flexibility Plan*?

The proposed definition of storage in the consultation document achieves the commitments outlined in the Smart Systems and Flexibility Plan (SSFP), in so far as that the licence classifies storage as a distinct sub-set of generation and allows storage as an asset to compete under the same obligations as generators.

Question 2: Do you have any views on whether we should include 'in a controllable manner' in the definition of electricity storage?

We consider this is worth including. This is owing to the fact that storage is the only technology capable of flipping from importing to exporting in a short space of time. If storage were hypothetically to break licence conditions owing to instruction from National Grid therefore, it should not be considered in breach of its licence conditions.

Question 3: Do you think there are any risks or unintended consequences that could arise as a result of our proposal? If so, please provide an explanation.

Whilst it is important to create this distinction for licensing purposes, it should be noted that most storage will be unlicensed. We look forward to the next stage of ensuring that all storage is not double charged in the network charging arrangements. We are, however, concerned that the current proposals under CMP280 and CMP281 are not addressing embedded storage alongside transmission connected and we would encourage Ofgem to signal this as a potential competitive advantage which should not be allowed.

There is also a key distinction to be made as to how to treat storage which is on distribution/transmission networks and how to treat that which is behind the meter. Network connected storage (or any storage over 50MW) can avoid FCLs through this licence. However, behind the meter storage (which is likely to be under 50MW) used for price arbitrage may pay FCLs once when it imports, before exporting the same power, which the eventual end consumer could pay FCLs on again. Even through licensing, this problem is not addressed.

The only way to properly measure and apply FCLs appropriately to demand, is by installing sub-metering (an option which Ofgem has recently outlined in its working paper on the Targeted Charging Review).

Batteries will naturally import just as much as they will export, which makes the exporting requirement appear superfluous. Markets will 'regulate' and dictate the appropriate behaviours as it drives revenues. To this end, Ofgem should be wary of assuming that batteries will only import at peak times. Market revenues and different products might dictate that it is profitable for a battery to charge at peak time before exporting power again.

Question 4: Do you have any comments on the list of technologies that should be included or excluded from the definition of storage as set out in Appendix A?

Ofgem state that the list of technologies is not exhaustive. It would be useful if the list were to be exhaustive in the final consultation response in order to provide certainty to industry participants and project developers. It could be described with the caveat that new classes could be added in the event of new innovation. Anything that complies with the definition of storage stated in the document should be included.

Question 1: Do you have any comments on the proposed changes to the Application Regulations for electricity and gas licences?

This change is necessary for the rest of Ofgem's changes to work. We are comfortable with the addition. We would welcome further details on the process required for notifying Ofgem of relevant changes.

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

Yours sincerely,

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