

Chiara Redaelli
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27 November 2017

Dear Chiara,

Clarifying the regulatory framework for electricity storage: licensing

Thank you for the opportunity to respond to your consultation that sets out your proposed modifications to the generation licence in order to clarify the regulatory framework for electricity storage. This response is from ScottishPower. Our networks business is responding separately on matters specific to its business.

Ofgem clearly has a central role in ensuring that competitive markets for storage and other flexibility services unlock the significant benefits for consumers and the UK economy as we work towards achieving decarbonisation goals.

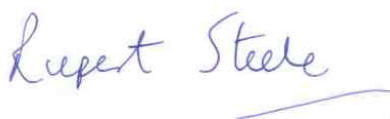
We support the proposed approach of modifying the generation licence in order to clarify the regulatory licensing framework for storage and to ensure that the costs of final consumption levies (FCLs) are allocated fairly. However, we are concerned that the proposed new licence condition E1 as drafted leaves open too many loopholes and will not achieve this objective. For the reasons set out in our response to Question 1, we would suggest an alternative formulation along the following lines:

"The licensee shall not use imported electricity to any material extent for purposes other than (a) storage and export of that stored electricity to the National Distribution System or the GB Transmission System or (b) providing power to the auxiliary services needed to operate the storage facility."

We would also note that in future years, if the distributed storage fleet expands to the level forecast by some, there may be a need to revisit the thresholds above which licensees are obliged to comply with certain codes. Under some future scenarios the visibility and controllability of the fleet of smaller storage facilities could be essential to the safe and effective operation of the networks.

Our answers to the consultation questions are in the attached Annex. Should you have any questions in relation to this response, please do not hesitate to contact me.

Yours sincerely,



Rupert Steele
Director of Regulation

CLARIFYING THE REGULATORY FRAMEWORK FOR ELECTRICITY STORAGE: LICENSING – SCOTTISHPOWER RESPONSE

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?

Ofgem is proposing to add a new licence condition E1.1 “*The licensee shall not have self-consumption as the primary function when operating its storage facility.*”

We do not agree that this will achieve Ofgem’s stated aim of ensuring that the costs of Final Consumption Levies (FCLs) are allocated fairly because it leaves too many loopholes to avoid paying FCLs – and experience has shown that where there is a financial incentive to exploit a loophole this will soon be done.

In particular, we think that:

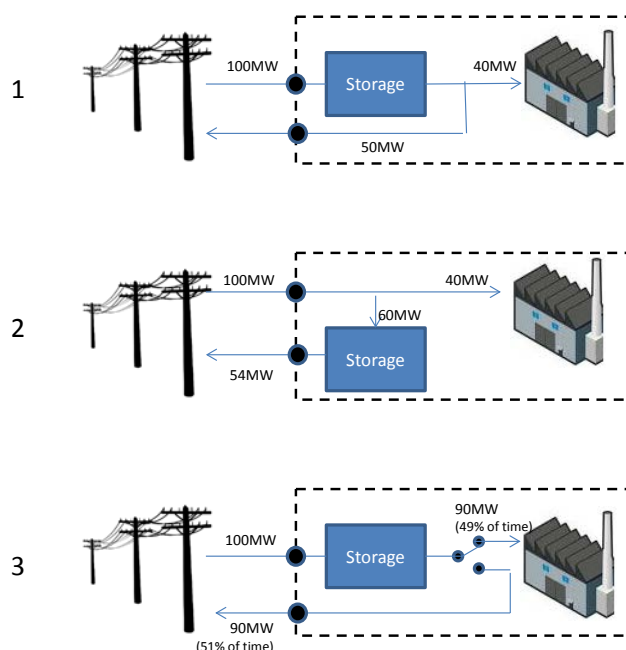
- a) There is too much ambiguity in the word primary. Eg, does it mean the most important function, the most remunerative function, or the function that accounts for the most kWh of energy?
- b) Even if the definition of primary is clarified, there will still be an opportunity to avoid FCLs on any self-consumption that constitutes a secondary function of the facility.

For example, suppose the facility comprises storage equipment and a co-located factory both behind the same import meter. (We use a factory to illustrate the point, but it could be a less clear-cut case of self-consumption). Provided the factory qualifies as a secondary function of the facility, energy consumed in the factory will potentially be exempt from FCLs. There are various configurations which could give rise to this issue (as illustrated in Figure 1 below):

- 1) Some (less than half) of the energy discharged from the storage facility is used by the factory and the rest is exported to the grid;
- 2) Some (less than half) of the energy imported into the facility supplies the factory and the rest charges the storage;
- 3) The energy discharged from the storage facility can be switched between the factory and the grid, but is switched to the factory less than half the time.

In each of these cases it is arguable that the self-consumption in the factory is not the primary function and should therefore be exempt from FCLs. However, we do not consider that such exemption would allow the fair allocation of FCLs.

Figure 1 – Possible self-consumption scenarios



In order to avoid the problems identified above, we would suggest that the licence condition should be drafted along the following lines:

“The licensee shall not use imported electricity to any material extent for purposes other than (a) storage and export of that stored electricity to the National Distribution System or the GB Transmission System or (b) providing power to the auxiliary services needed to operate the storage facility.”

Finally, we assume that it will be possible for companies to apply for a generation licence in respect of activities which are licence exempt, but given the importance of this point to the proposed approach, we would appreciate confirmation.

Question 2

Do you have any views on whether we should include ‘in a controllable manner’ in the definition of electricity storage?

For the purpose of granting a licence the definition of a storage facility should be appropriately broad, and we do not see a need to include ‘in a controllable manner’. If more prescriptive requirements such as this are required in particular contexts, they can be introduced by way of relevant regulations or market rules.

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.

Please see our answer to question 1 above.

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?

While the list appears to be exhaustive, it may be appropriate to include powers for the Secretary of State to also grant a licence for any future emerging storage technologies.

ScottishPower
November 2017