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By email only

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Shell Energy Europe response to consultation on *Clarifying the regulatory framework for electricity storage: Licencing*

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

Dear Sir/Madam

Shell welcomes the opportunity to respond to Ofgem's consultation on proposed Licence amendments for electricity storage in Great Britain (GB). We are providing a combined response to the respective consultations on the Generation Licence and the Distribution Licence. Answers to the consultation questions are included in the Annex.

We understand that in proposing the amendments, Ofgem's objective is it to:

1. clarify the regulatory framework and thereby reduce barriers for the competitive development of storage – by placing storage within the existing regulatory framework for generation;
2. ensure that appropriate incentives are in place for the competitive deployment and operation of storage – by reinforcing network unbundling requirements.

Shell broadly supports the objectives and approach proposed by Ofgem. We therefore explain our view on proposed priorities for policy makers, to ensure the development of a competitive storage market in GB, and achieve the ambition set by the Government and Ofgem in the Smart Systems and Flexibility Plan. We also touch on some detailed elements which we consider particularly important.

We support the proposal that the electricity generation licence is the best available route to clarify the regulatory framework for storage. Policy makers should aim to establish a level playing field between storage and similar technologies (for example, with regard to the application of rules on network charging or low carbon policies). To ensure that these technologies can compete effectively in the wholesale market and in the provision of balancing and constraint management services to network operators.



Shell strongly supports the aim to establish a framework that allows for the development of electricity storage on a merchant basis. This will require the regulator and network operators to establish some basic building blocks, including:

1. **an appropriate level of ownership unbundling** to ensure that network operators are focused on the role of market facilitator rather than asset owner;
2. **necessary transparency** and access to real time data, to ensure that potential developers have sufficient information to determine the expected rate of return on any planned investment;
3. **development of appropriate markets arrangements**, to ensure that storage can compete with existing technologies in the provision of balancing and ancillary services to network operators

For example, data the network operators should provide as market facilitators includes:

1. data on existing constraints and predicted areas of increasing demand, such as heat maps or other information on constraints that network operators possess;
2. data on the existing deployment of storage and frequency and duration of its usage for system balancing or constraint management.

This data is necessary to help potential developers determine the best, economic, site for the deployment of additional storage. It should be provided in a single format and a single location to ensure ease of access.

Improving transparency could be addressed through one of the existing projects that network operators have set up – such as the ENA Open Networks Project or by extending the System Needs and Product Strategy process to include DNOs.

We do not consider that any of these steps are overly complex or will require significant change to existing regulatory arrangements. However, they are critical to achieve the objectives set out in the Smart Systems and Flexibility Plan.

The complexity, will come from having to update the breadth of industry arrangements to ensure that a level playing field – and a competitive market – can be established. Because of this, we see a need for Ofgem and the Government to take a proactive role in driving change in a coordinated way.

Yours sincerely

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Annex 1: Clarifying the regulatory framework for electricity storage: Licencing

CHAPTER 2 – Our proposals and rationale

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?

We agree that the proposed form and content of the amendments to the generation licence are a necessary first step in clarifying the expected treatment of storage in the GB regulatory framework. However, further work will be necessary for the government, regulator and industry to successfully deliver the Smart Systems and Flexibility Plan – including clarification of the treatment of storage for recovery of network connection and use of system charges.

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

We support the definition of storage developed by the Electricity Storage Network and proposed by Ofgem, which defines electricity storage as:

- Electricity Storage in the electricity system is the *conversion of electrical energy into a form of energy which can be stored, the storing of that energy, and the subsequent reconversion of that energy back into electrical energy*
- Electricity Storage Facility in the electricity system means *a facility where Electricity Storage occurs*

We do not consider that adding “in a controllable manner” to this definition is either necessary or helpful. We believe that the addition, would only serve to add ambiguity to the definition.

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.

As mentioned, the proposed amendment of the generation licence is a first step in clarifying the treatment of storage in the GB regulatory framework. However, further work will then be necessary to deliver a level playing field for storage across the breadth of industry arrangements.

Shell considers that Ofgem and the Government should continue to progress this work as a priority – including, clarification of the treatment of storage in secondary legislation for low carbons support schemes and the capacity mechanism.

In addition, in Paragraph 1 of Condition 1E, there is a question of clarification around the final consumption levy in terms of the way this would be measured and effectively managed. The definition of ‘primary function’ would need to be set out clearly to ensure clarity over acceptable levels of self-consumption.



Annex 2: Enabling the competitive deployment of storage in a flexible energy system: changes to the electricity distribution licence

CHAPTER 2 - 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?

The measures outlined do not go far enough to ensure unbundling of DNOs from operation or ownership of storage asset. As well as not being automatically able to operate storage, DNOs should not be enabled or allowed to own storage. Only in certain circumstances would we support operation of these assets, for a limited time, by DNOs and in these circumstances (for example operation of generation or storage for Uninterruptible Power Supply (UPS) etc.) we do not support ownership of these assets by DNOs.

Shell encourages Ofgem to use the current process to set clear and unambiguous unbundling requirements for all network operators, to clarify that they should not own or operate storage facilities. In its consultation, Ofgem notes that it ultimately intends to disallow ownership of storage by network companies. We consider that failing to do so now, will create an unhelpful and unnecessary level of ambiguity – and potentially perverse incentives for network operators in the short term.

There is adequate competition in the GB energy storage industry to enable the procurement of flexibility services through market-based competitive processes, which would be liquid enough to bring forward cost-effective solutions without direct DNO intervention.

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?

The same principles should be applied equally across DNOs and 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?

Exceptions should not be applied in a blanket manner to any form of usage, and should be examined on a case-by-case basis via a transparent application process for the right to an exemption, based on key criteria defined by Ofgem in the licence.

Any exceptions to distribution ownership or operation of assets, which would otherwise be actions classified in Generation or Supply licences, should be clarified across said licences, rather than leaving this open to interpretation. This is the only practicable option to ensure full understanding of these exceptions across the market.



In the event of a DNO failing to secure adequate provision of storage through, for example, a competitive tender, and an exception being granted. The entire process should be made transparent to the market to maintain market integrity.

There should be clarity over the set criteria for exemptions and a transparent application and award process. As and when new exemptions are considered, these should be consulted upon before being granted.

Question 4: Do you have any views on the treatment of existing islanded system generation currently owned by DNOs?

Whilst there should be no attempt to immediately shut off existing islanded system generation, there should be a timeline and process by which the affected DNO should tender for market solutions to replace the DNO in their ongoing ownership or operation of storage or generation assets.