



# Ofgem Forward Work Programme 2017/18: Consultation Response

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## Summary

The Electricity Storage Network (ESN), as the UK industry group dedicated to electricity storage, welcomes Ofgem's proposed Forward Work Programme for 2017-18.

We are pleased to see electricity storage feature in the Work Programme. Storage promises to be a vital tool in the GB energy system moving forwards. The market in GB began to take off over the course of 2016, and it is important that the framework for this market be quickly developed in a way that maximises benefit to the GB consumer. In this context, we agree with Ofgem positioning itself as receptive to new ideas, "thinking more about their opportunities rather than their difficulties." We would make further suggestions as follows:

- **A regulatory stance for future consideration could usefully be: "maintaining momentum in the transformation of the energy system towards strategic objectives."**
- **Ofgem should see itself not just as an "agent of innovation," but also of transformation. – Innovation can sometimes be narrowly defined and without clear purpose or direction.**
- **The expected plan on a "Smart, Flexible Energy System" is one item in the Forward Work Programme. Elements of this plan may constitute significant portions of work in 2017/18 that it would be prudent to plan for early on – for example, the early reform of licensing of electricity storage, and transformation to DSO.**
- **Ideally decisions should be made against a strategy and direction of travel. This applies for example in the case of network charging and the proposed withdrawal of embedded benefits.**
- **State of the Market reports should extend to markets in all areas of the system, including network connections, network services, etc. These markets can save billions of pounds for the consumer.**

We look forward to working with Ofgem to inform and deliver its priorities with the above in mind.

## Introduction

The ESN was established in 2008 as the UK industry group dedicated to electricity storage. It represents a broad range of members including electricity storage manufacturers and suppliers, developers of projects, users, electricity network operators, consultants, academic institutions, and research

organisations. We strongly support UK companies to deliver solutions for the GB and SEM electricity systems and beyond.

The ESN works on behalf of its members to respond to and address issues affecting the development and utilisation of electricity storage within the GB and SEM electricity systems. We have sat on the Smart Grids Forum and Workstream 6, working to identify the opportunities and barriers to the wider deployment of storage as a tool in a flexible energy system; we have responded extensively to the Call for Evidence on “A Smart, Flexible Energy System;” and we continue to promote active discussion and problem-solving of current and upcoming issues for the sector.

This response represents the views of the ESN as informed by our members and by our mission to promote the wider cause of electricity storage. It should not be taken as representing the specific views of individual member organisations.

For convenience, we have structured this response according to the Work Programme headings, hence some issues will come up under several headings.

## Strategy and Regulatory Stances

We agree with Ofgem not “unquestioningly retaining the status quo,” and approaching new ideas “thinking more about their opportunities rather than their difficulties.” We support the idea of being an “agent of innovation,” but we believe an important related issue is being an agent of *transformation*. – innovation can easily be narrowly defined, or classed as a separately funded project, without clear purpose or direction.

→ **Ofgem should see itself not just as an “agent of innovation,” but also of transformation.**

We support the proposal to speed up decision making, subject of course to proportionate scrutiny. Often regulatory and industry issues can be argued extensively either way, and a helpful question to ask is which decision will move things along in the direction of strategic objectives. We also welcome the development of regulatory stances, which we believe provide helpful perspectives on and for Ofgem decision making. Therefore, for future consideration, we propose that:

→ **A further regulatory stance could usefully be “maintaining momentum in the transformation of the energy system towards strategic objectives.”**

This regulatory stance might inform more timely decisions, with CBAs taking into account the cost of delay and uncertainty, and decisions made against whether changes take us forwards or maintain the status quo.

## Flexibility Work (2.2)

The expected plan on a “Smart, Flexible Energy System” is one item in the Forward Work Programme. We note that elements of this plan may constitute significant portions of work in 2017/18 that it would be prudent to plan for early on. Notable examples are the early reform of licensing arrangements for

electricity storage, and encouragement of third party service markets as part of the transition to DSO, work on each of which is likely to span several departments. We understand that the Work Programme cannot pre-empt the outcome of the Call for Evidence, equally it would be disappointing if the likely deliverables from the plan were not fully catered for in the corporate plan for 2017/18.

- **The plan for a “Smart, Flexible Energy System,” with tasks and timings, should be explicitly appended to the deliverables for the Ofgem Work Programme once known.**

The electricity storage market in GB began to take off over the course of 2016, and it is important that the framework for this market be quickly developed in a way that maximises benefit to the GB consumer. The key message from the ESN in response to the Call for Evidence was the need for a sense of urgency.

## **Reform of Network Charging (2.4)**

We note the intention to make final decisions in relation to elements of network charging, in particular the withdrawal of embedded benefits. We also note the variety of other charging reviews underway, including the targeted charging review and the future-focused strategy work. There seem to be a lot of different strands of work underway, yet even in this Forward Work Programme they are not tabulated with clarity of scope, timing, and implications.

We welcome the proposal to publish Ofgem’s approach to the reform of network charging, in which we hope these interrelationships will be mapped out. We also welcome the upcoming “high-level strategic approach to market and regulatory reform.” However, network charging decisions are proposed to be made before this wider approach and strategy have been developed and consulted on. There is also no reassurance in the Work Programme that there will be continuity in direction of travel as various decisions are made. We are concerned for example that embedded benefits may be withdrawn without an account of the wider implications of this for distribution connectees, and whether the withdrawal assists or hinders transformation towards a decarbonised energy system. For these reasons, we believe that:

- **Decisions on network charging should be made against a strategy and direction of travel.**

## **RIIO-2 (3.1)**

ESN believes that electricity storage will be an increasingly important and cost-effective tool for management of the GB electricity system. Some of the functionality of this storage will be to the benefit of network company asset deferral (and, ultimately, the end consumer). However, it is not yet used on a widespread basis and there are barriers to its adoption. We are keen that its wider adoption not be delayed to RIIO-2. We believe the incentive for efficiency, and the incentive for transformation to DSO, over the course of the latter half of the RIIO-1 period, need to be reviewed carefully, together with the Innovation Roll-Out Mechanism.

- **A deliverable for 2017/18 should be a review of the effectiveness of incentives for efficiency and transformation over the latter half of the RIIO-1 period.**

## **Reports and Research (5.2)**

We welcome Ofgem's future insights paper series, and we also welcome the forthcoming publication of a State of the Market Report. We are however concerned that such a report will be dominated by an account of the politically high-profile retail (and wholesale) markets. It should not be forgotten that the transformation to a more flexible energy system is set to yield benefits of up to £8bn p.a. by 2030, and that much of this is down to markets delivering services and efficiencies. From the perspective of electricity storage, we are keen to see the network companies and others access fully functioning markets for services with technologies competing on a level playing field. These markets could helpfully be monitored in Ofgem's mainstream reports.

→ **The State of the Market Report should extend to markets in all areas of the energy system, including network connections and network services.**

## Network Innovation Competition (6.9)

We welcome ongoing support for innovation, including a form of Innovation Roll-Out Mechanism under RIIO-ED1. As per our discussion of RIIO-2 above, we are keen to see close monitoring of progress on transformation and efficiencies in the latter half of the RIIO-1 period.

ESN also responded to Ofgem's consultation on the Network Innovation Review. We supported in our response the need for a strategic approach to innovation projects and innovation funding. We also emphasised in our response the need to distinguish between isolated innovation projects and progress on wider transformation.

→ **Decisions on the funding of innovation projects in Q3 should be made in the context of a wider strategy for innovation and for transformation, which should therefore be developed early in 2017.**

## Conclusion

ESN welcomes the spirit of the Forward Work Programme. We welcome the references to electricity storage as a key tool for the electricity system that will benefit the end consumer.

Our primary concern is that the development of opportunities for use of electricity storage, ideally through markets, should be fully monitored and facilitated as part of the wider, purposeful transformation to a decarbonised energy system, and that likely actions for this should be anticipated in the Work Programme for 2017/18.

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