

Energy Storage features in Call for Evidence on "smart" energy system

The Government is seeking views on how to best develop its ambitions for a "smart" and flexible energy system based on increased market efficiency and competition. A new joint Call for Evidence by the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem¹ explores a number of areas including facilitating the use of energy storage.

In relation to energy storage, BEIS / Ofgem is seeking views on how to deal with various perceived policy and regulatory barriers to the development of increased storage capacity despite the continuing fall in costs of storage technology:

- **Network connections:** A need for more clarity in relation to the process for gaining network connections for storage facilities, given the complexity surrounding the need for both import and export capacity, and the varying nature of use, size and location of connections involved. Additional clarity is also required where storage is added to existing facilities with generation or demand connections.
- **Network charges for storage:** The inconsistencies in charging for network usage which can be caused by storage being classified as intermittent or non-intermittent by different network operators can lead to uncertainty for storage operators in forecasting network charge costs. BEIS / Ofgem consider that network charges should be flexible to better recognise the value and costs of storage – in particular they float the option of flexible connection and charging agreements aligned to the actual operation of the storage facility. Ofgem will also be looking at the contribution of storage to network cost recovery (compared with other network users) to ensure storage remains competitive.
- **Final Consumption Levies:** A number of levy costs are often applied to storage twice (once on charging of the storage device and once upon supply to the end consumer), including e.g. the costs of the Renewables Obligation, Feed-in Tariffs and the Climate Change Levy. BEIS / Ofgem will consider how storage can be given a level-playing field where storage purchases electricity from suppliers.
- **Definition of Storage for regulatory treatment:** Different definitions of storage are used for different regulatory purposes, including licensing and the capacity market. BEIS / Ofgem want to develop a common definition for use across different policy areas. Different options listed in the document include:
 - continuing the *status quo* (i.e. treating storage as generation for licensing purposes);
 - defining storage as a subset of generation in a modified generation licence or as a subset of generation in the Electricity Act 1989; or
 - defining it as a completely new activity with a separate licensing regime under the Electricity Act 1989As discussed above BEIS' / Ofgem's considerations surprisingly do not appear to include the relevance of definitions for unbundling purposes.
- **Innovation support:** BEIS / Ofgem are considering the case for further support for developing more cost-effective grid-scale storage technologies, through demonstration programmes for large-scale, or inter-seasonal, storage technologies such as compressed air, power-to-gas or thermal.

¹ [A Smart, Flexible Energy System – A call for evidence - BEIS / Ofgem – November 2016](#)

The Call for Evidence also deals with a number of other aspects of the energy system and regulatory regime, some of which are also directly relevant for storage:

- Providing better price signals for flexibility services (e.g. provided by storage and "demand side response") through a move to "system value" pricing. In particular BEIS / Ofgem are looking to allow providers of flexibility services to sign-up to multiple contracts and "stack" revenue streams, thereby enabling providers to extract maximum value from their facilities.
- New "smart distribution tariffs" which give forward-looking network access price signals that take into account the costs of developing and operating the distribution system, and ensuring that all network users make appropriate contributions cost recovery by distribution network operators.
- Considering how rules on co-location of storage and generation facilities can deter investment in storage (e.g. under the Contracts for Difference and Renewables Obligation regimes).

Responses to this call for evidence must be provided by 12 January 2016. Following consideration of responses, BEIS / Ofgem intend to publish a plan setting out the actions they propose to take.

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