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Dear colleague,

**Request for modification of Special Condition AA of the Electricity Generation Licence held by the Centrica corporate group**

On 2 February 2021, Centrica formally requested that Ofgem<sup>1</sup> remove Special Condition AA: Liquidity in the Wholesale Electricity Market from the Electricity Generation Licence held by Centrica PB Limited, a subsidiary of the Centrica corporate group. On 31 March 2021, Centrica provided further information to support their request. Centrica is currently subject to Schedules A and C of this licence condition.

Centrica's main argument in support of their request relates to changes in the corporate group's business strategy. This has resulted in a reduction in their market share from 8% in 2014, when Centrica group were first subject to Special Condition AA, to 0.25% currently. As a result of the change in their generation market share, Centrica's view is that they should no longer be subject to the licence condition.

We have assessed Centrica's request against our rationale for applying the licence condition originally and the non-exhaustive factors outlined in our guidance document on the condition. This letter sets out the background to the request and explains our reasons for consenting to it. To give effect to the changes, pursuant to Paragraph AA.1 of the Special Condition, today we have published a Direction addressing the Electricity Generation Licensee in the Centrica corporate group.

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<sup>1</sup> References to the "Authority", "Ofgem", "we", and "our" are used interchangeable in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

## Background

Special Condition AA: Liquidity in the Wholesale Electricity Market (“the Secure and Promote licence condition” or “licence condition”) first came into effect on 31 March 2014. On 14 November 2019, we published our decision to suspend Schedule B of the licence condition (‘the Market Making Obligation’), with took effect on 18 November 2019.<sup>2</sup> This decision followed a series of market changes that impacted the effectiveness of the Market Making Obligation in meeting the objectives of the Secure and Promote policy and risked the remaining parties (two as of 30 October 2019)<sup>3</sup> experiencing disproportionate and potentially unfair costs.<sup>4</sup> As part of our 14 November 2019 decision, we did not suspend Schedule A (‘Supplier Market Access Rules’) or Schedule C (‘Reporting Requirements’).

## Assessment criteria

We have assessed Centrica’s request by considering our June 2013 Final Proposals document on wholesale electricity market liquidity<sup>5</sup> in which we set out our rationale for applying the condition; and our 2014 Guidance on the condition<sup>6</sup>, which sets out the non-exhaustive factors that we consider when considering whether to remove the licence condition or adding it the generation licences of companies in additional corporate groups.

Our Final Proposals document indicates the main purpose of the Supplier Market Access rules is to ensure that suppliers can get access to power in the wholesale market and that the firms in the market that are best placed to provide this power are the larger generators. In our final proposals for the Secure & Promote licence condition in 2014, we proposed that the eight largest GB electricity market generators should face the Supplier Market Access, given those eight generators controlled 98% of the generation market at the time.

Paragraph 1.10 of the guidance document contains the non-exhaustive factors that we will use in combination as the basis of any decision on whether to remove or add Schedules A,

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<sup>2</sup> [Decision to suspend the Secure and Promote Market Making Obligation with effect on 18 November 2019 | Ofgem](#)

<sup>3</sup> In 2014, the obligation was placed on six companies with a combined retail market share of 94% and a 70% share of the generation market. This had the effect of spreading the costs and risk of the policy across the market, reducing the risk of any associated competitive disadvantage between the larger market players of the time. As of 30 October 2019, the retail and generation market shares of the two remaining parties are 24% and 36%. [Decision to suspend the Secure and Promote Market Making Obligation with effect on 18 November 2019 | Ofgem](#)

<sup>4</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2019/10/rwe\\_schedule\\_b\\_decision\\_2.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2019/10/rwe_schedule_b_decision_2.pdf)

<sup>5</sup> Wholesale power market liquidity: final proposals for a 'Secure and Promote' licence condition [https://www.ofgem.gov.uk/sites/default/files/docs/2013/06/liquidity-final-proposals-120613\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2013/06/liquidity-final-proposals-120613_0.pdf)

<sup>6</sup> Liquidity in the Wholesale Electricity Market (Special Condition AA of the electricity generation licence): Guidance. <https://www.ofgem.gov.uk/ofgem-publications/86717/liquidityinthewholesaleelectricitymarketspecialconditionaaoftheelectricitygenerationlicence-guidance-pdf>

B or C of the licence condition to the generation licences of any corporate group. These factors are:

- i. **Changes to generation market share:** any significant and sustained changes in the generation market share or generation output of a corporate group, considering its relative market share and overall size.
- ii. **Disproportionate risks or costs:** an indication that an existing Secure and Promote licensee will face disproportionate costs and risks in continuing to meet the licence condition, or that a potential new Secure and Promote licensee could meet the costs and risks proportionately.
- iii. **Success of the licence condition:** the sustained successful achievement of the objectives of this licence condition.

## Supporting evidence and our assessment

The following paragraphs summarise Centrica's evidence to justify the removal of the Secure and Promote licence condition from the Electricity Generation Licence held within the Centrica corporate group and our assessment of Centrica's request, in accordance with the assessment criteria listed above.

Centrica's primary argument relates to changes to its business activities, with greater focus on customer facing activities and energy optimisation. It has reviewed its ownership of energy assets and decided to exit from wind generation, sell some of its larger plants and repositioning its portfolio to focus on smaller embedded assets. Centrica group also plans to exit nuclear and sell its share in Spirit Energy.

We estimated Centrica's market share to be approximately 8% in 2014 when the Secure and Promote licence condition was introduced in March 2014. Since then, Centrica note a consistent decrease in its generation market share. Currently, Centrica has one generation licenced asset, Peterborough, which participates in STOR (Short Term Operating Reserve) which is instructed by the National Grid Electricity System Operator (ESO). Centrica has provided analysis that shows its share in the generation market is now 0.25%. This figure has been reached by comparing Peterborough's capacity<sup>7</sup> against data<sup>8</sup> from the UK Government on total generating capacity in GB. In Centrica's view, it has undergone a significant and sustained change in its generation market share.

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<sup>7</sup> Verifiable against National Grids Transmission Entry Capacity Register

[https://data.nationalgrideso.com/connection-registers/transmission-entry-capacity-tec-register/r/tec\\_register](https://data.nationalgrideso.com/connection-registers/transmission-entry-capacity-tec-register/r/tec_register)

<sup>8</sup> [DUKES 2020 MASTER.pdf \(publishing.service.gov.uk\)](#)

Centrica also highlight that it has interests in EDF's nuclear fleet but notes that this is a purely financial stake. Centrica does not operate any of these plant but receives 20% of the plant's generation through a power purchase agreement.

In addition, Centrica highlight that their request is in line with our decision on Engie<sup>9</sup> in which we removed Schedule A and C from Engie's generation licences. Our justification for this decision related to a reduction in Engie's generation market share from 6% to 3%.

Our rationale for requiring parties to comply with the Supplier Market Access rules was based on a substantial presence in the generation market. We agree with Centrica's assessment of their significant and sustained reduction in generation market share, which places them at less than 1% share of the generation market. We further consider that, because of this reduction and their lack of sufficient schedulable generation capacity, Centrica would face disproportionate costs and risks in complying with the Supplier Market Access rules. This view is consistent with our assessment of Engie, E.ON SE and Scottish Power corporate group's request for removal of their equivalent obligations<sup>10</sup>.

Our overall assessment is that, for the reasons above, we consider it would no longer be appropriate for the remaining company in the Centrica corporate group to face the Schedules A and C of the licence condition.

## **Our decision**

For the reasons outlined in this letter, we consent to Centrica's request to remove the Secure and Promote licence condition from the Electricity Generation Licence held by the corporate group. To give effect to this decision, we have today published a Direction disapplying the licence condition in its entirety in the relevant Electricity Generation Licence.

As part of their request, Centrica argue that a reduction in trades with Eligible Suppliers suggests the Supplier Market Access rules framework is no longer required. At this time, we do not plan to make further changes to the Secure and Promote framework. We will shortly update the list of Eligible Suppliers for the Supplier Market Access rules and use this to inform a decision on whether change to Schedules A and C is warranted.

Yours sincerely

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<sup>9</sup> [Request for modification of Special Condition AA of ENGIE's Electricity Generation Licences | Ofgem](https://www.ofgem.gov.uk/system/files/docs/2016/11/e.on_uk_special_condition_aa_letter.pdf)

<sup>10</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/11/e.on\\_uk\\_special\\_condition\\_aa\\_letter.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/11/e.on_uk_special_condition_aa_letter.pdf);  
<https://www.ofgem.gov.uk/publications-and-updates/request-modification-special-condition-aa-scottishpower-s-electricity-generation-licences>

**Heather Stewart**  
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