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5th December 2022

By Email to:
Robin Dunne, Ofgem
Robin.Dunne@Ofgem.gov.uk

Dear Robin,

RWE's Response to Ofgem's Call for Input on options to address high balancing costs published on 4 November 2022

RWE welcomes the opportunity to respond to Ofgem's Call for Input on options to address high balancing costs published on 4 November 2022. I am responding on behalf of RWE Supply & Trading GmbH, RWE Generation UK plc and RWE Renewables GmbH.

We agree that of the options presented, option 4 is most likely to achieve Ofgem's aims with the fewest unintended consequences. While the ability of a generator to choose which markets to operate in is important, we recognise that withdrawal of PNs at short notice may cause difficulties for the system operator, but that excessive benefit is also difficult to define. If Ofgem is specifically seeking to address unjustified short notice revision of PNs to zero MW, then we would suggest that a more specific definition be included in the licence condition so that it is applied to only those settlement periods for which a revision of PNs to zero MW has been submitted within a limited notice period.

Our full response can be found in Annex 1 below. If you have any comments or wish to discuss the issues raised in this letter, then please do not hesitate to contact me.

Yours sincerely,
By email

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Annex 1

RWE's Response to Ofgem's Call for Input on options to address high balancing costs published on 4 November 2022

- 1. Do you agree that our preferred option will effectively prevent the behaviour that caused last winter's high balancing costs? Please provide reasons for your answer.**

We agree that of the options presented, option 4 is most likely to achieve Ofgem's aims with the fewest unintended consequences.

- 2. Is the proposed licence condition drafting in Annex 1 sufficiently clear? Are there any drafting edits or additions that you would encourage us to consider?**

We consider option 4 to be an acceptable approach provided it is specifically applied to only those settlement periods for which a revision of a PN from a positive number to zero MW has been submitted within a limited notice period, rather than to all settlement periods including those where the PN has always been zero.

If Ofgem's concerns are isolated to instances where generators initially signal their intention to generate during a settlement period but then reduce their PN to zero, then we think this should be defined more specifically in the licence condition. The current drafting proposes that "The licensee must not obtain an excessive benefit from electricity generation in respect of a Settlement Period in relation to which the generator has submitted a Physical Notification of zero MW", which does not include a requirement for there to have been any signal of intention to generate before an excessive benefit test is applied. This means that the current drafting of the licence condition would be widely applied to a very large number of settlement periods.

There could be sound reasons for generators deciding not to sell their output in the wholesale market and to submit a zero MW PN, whilst making a higher than average offer in the Balancing Mechanism. These scenarios could include a generator returning from an outage and / or where its reliability is lower than usual, where a generator has a STOR contract, or limited running hours, or has not hedged its output for some other reason.

Flexible generators will continually seek to re-optimize their hedges and Balancing Mechanism offers based on market signals balanced against their reliability or other risks. We think it will be important to ensure generators can continue to optimize their planned output and be able to revise their PNs as close to delivery as possible.

Therefore, we would suggest the licence condition be more specifically applied to only those settlement periods for which a revision of PNs from a positive number to zero MW has been submitted, and that revision be within a limited notice period.

3. Do you agree with the initial list of factors to consider when assessing excessive behaviour? Are there any other factors that would encourage us to consider?

We think consideration should be given as to whether the change in a PN to zero and the timing of the submission of the revised PN can be justified. If a reasonable justification is given, then we do not think the Settlement Period should qualify as one to which the licence condition relates.

4. Is there any specific information you would like to see in the accompanying guidance related to interpretation and enforcement of the new licence condition?

We find the decision tree in Paragraph 2.8 of the Transmission Constraint Licence Condition Guidance a helpful summary, and a similar illustration could be used.