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Sent by email to: Robin.Dunne@Ofgem.gov.uk

Dear Robin

Responding to high balancing costs in winter 2021: Update and proposal to introduce a new licence condition

Thank you for the opportunity to provide feedback on Ofgem's Call for Input on options to address high balancing costs, which includes Ofgem's proposal to introduce a new electricity generation licence condition.

We welcome Ofgem working on the issue of high balancing costs, but the proposed new licence condition can only contribute to addressing Ofgem's specific concerns relating to the submission of zero MW Physical Notifications (PNs). Broader market reform is needed find solutions to the current challenge of network capacity constraints relative to generation location. We are supportive of the aims of the BEIS Review of Electricity Market Arrangements (REMA) to find an enduring solution that delivers efficient signals for investment and dispatch.

There are other short- and medium-term measures not considered in Call for Input that would contribute to reducing balancing costs. These include working to reduce connection times so that new flexible generation can connect to the network and increasing competition in the Balancing Mechanism and wider ancillary service markets.

- Ofgem is right to prioritise¹ near term improvements to transmission connections processes and distribution generation connections that have a transmission impact. High balancing costs are being exacerbated by the slow build-out of network infrastructure (at both distribution and transmission level), which is slowing the deployment of low-carbon generation. We are supportive of the initiatives the ESO is taking to review the existing connections queue, including stricter queue management, and the need for a longer-term GB Connections Reform. We welcome Ofgem's work

¹ Ofgem (8 November 2022), "Open Letter regarding Prioritisation of Electricity Network Charging Reforms"

to better enable anticipatory investment within the current RIIO framework. These reforms are all key to growing flexibility and generation, and Ofgem must ensure delivery as quickly as possible.

- Ofgem must ensure that the ESO is acting at pace to increase competition in the Balancing Mechanism, and its other balancing services. Smaller assets are already under-utilised by the ESO for balancing because of its outdated systems, partly because the dispatch process is highly manual. The ESO must expedite upgrades to its control room systems so that it can dispatch smaller generators and other distributed energy resources. The ESO must also address barriers in the design and service terms for its balancing services to make those markets more accessible to smaller and aggregated assets, including residential DSR.
- The ESO's new proposed Balancing Reserve product (aligning with Ofgem's Option 3) excludes aggregation and units below 50MW because the ESO has failed to upgrade its systems in a timely manner. Ofgem must ensure that the ESO delivers its less discriminatory but significantly delayed Quick and Slow Reserve products. The Ofgem team leading on this Call for Input, should review stakeholder responses to the Article 18 consultation on the ESO's Balancing Reserve product, which closes 9 December.

Both Ofgem and National Grid ESO have existing Market Monitoring teams and we question if more effective use could be made of these in investigating, and where necessary, addressing questionable behaviours at an early stage. Market participants have limited visibility of how effective these resources are currently.

I've responded to the questions on Ofgem's preferred option and the proposed new licence condition below.

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.

Option 4 – Ofgem's preferred option

We support Ofgem taking action to prevent questionable behaviours that unduly increase balancing costs.

The preferred option is the least interventionist and simplest to implement out of those listed. It could be helpful in preventing undesirable behaviours in relation to the submission of zero MW PNs. However, Option 4 places the requirement in the Generation Licence, meaning that it will only apply to licenced generation. Has Ofgem considered if a detailed open letter, along the lines of its 29 September 2020 letter on dynamic parameters submitted by generators in the BM, could have equivalent effect?

Better use of existing market monitoring arrangements

Has Ofgem considered if it could make better use of its, and the ESO's, existing market monitoring resources to police the market? We have little to no visibility of the results of investigations by Ofgem and the ESO's Market Monitoring Team. Although the latter published its 12-month report a few days ago, it is not at all clear what the ultimate outcomes were in the "further action taken" cases.

Option 3 – A new NG ESO Balancing service to procure firm reserve

Ofgem decided that a new ESO balancing service to procure firm reserve was not desirable. Despite this National Grid ESO has decided to launch a very similar Balancing Reserve product this winter, with the ESO's Article 18 consultation on this product closing on 14 December. The ESO's design for this excludes smaller providers and aggregators and is therefore discriminatory and contrary to the requirements of the Electricity Balancing Guideline (EBGL).

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 agree that the structure of the licence condition is broadly clear, but it needs supplementing with detailed guidance. We understand that Ofgem plans this guidance to follow the example it set with the Transmission Constraint Licence Condition guidance.

The guidance will need to explain what is meant by "excessive" in the phrases "excessive benefit" and "excessive amount", and how Ofgem will make that determination.

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 agree with the initial list of factors.

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?

A number of terms in the licence condition will need full explanation in the guidance. As in our response to Q2, the guidance will need to explain what is meant by "excessive" in the phrases "excessive benefit" and "excessive amount", and how Ofgem will make that determination.

Ofgem should clarify how the licence condition will be monitored and how performance against it will be tested e.g., against each BMU. Ofgem could include a set of example scenarios or hypothetical case-studies in which the licence would apply and would not apply.

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I hope you find our response useful. Please contact me if you have any questions on helen.stack@centrica.com or 07979 567785.

Yours sincerely

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