

Ofgem
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Canary Wharf
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Robin.Dunne@ofgem.gov.uk

13th March 2023

Dear Robin,

Consultation on Inflexible Offers Licence Condition

EDF is the UK's largest producer of low carbon electricity. EDF operates low carbon nuclear power stations and is building the first of a new generation of nuclear plants. EDF also has a large and growing portfolio of renewables, including onshore, offshore wind and solar generation, and energy storage. With around six million electricity and gas customer accounts, including residential and business users, EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

We welcome the opportunity to respond to this consultation on Ofgem's proposal to introduce a new licence condition to reduce balancing costs and the accompanying draft guidance. In principle, we agree with the intent of the proposed intervention which is to prohibit generators from participating in the combination of behaviours and practices that led to last winter's extremely high balancing costs.

The introduction of a licence condition is likely to lead to better outcomes for consumers through lower balancing costs and may also encourage lower carbon flexibility providers and demand response.

However, the draft guidance and licence condition need further refinement in order to articulate and bring forward these benefits. The key points we wish to highlight are set out below:

- The effectiveness of the new licence condition will be dependent on the definition of excessive benefit. The draft guidance is not specific enough creating a compliance risk for affected parties. We continue to encourage Ofgem to provide case studies on what is considered to be excessive benefit preferably based on the high-cost days of winter 2021.
- The removal of the 'within the operational day' requirement broadens the scope of the Licence Condition. Ofgem only shared a summary of their analysis to support this change. The detailed analysis should be shared. Through this it will also give the opportunity to assess the risk of any unintended consequences from a broader scope.

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- We support Ofgem's proposal to limit the scope of the condition to generators with an MZT greater than 60 mins. Given the pace of technological change it will be important for Ofgem to review this threshold regularly and ensure the licence condition evolves to support flexible assets.
- We continue to encourage National Grid ESO to make improvements to its forecasting accuracy.

Should you have any queries or wish to discuss our response, please contact me or Natasha Ranatunga at Natasha.Ranatunga@edfenergy.com.

Yours sincerely,

A handwritten signature in black ink that reads 'Mark Cox'.

Mark Cox
Head of Nuclear & Wholesale Policy and Regulation

Attachment

1) Do you agree with our proposal to remove the ‘within the operational day’ requirement for submission of 0 MW PNs? Please provide reasons for your answer.

Ofgem’s November 2022 Call for Input sought to address specific situations when high offer prices were combined with a reduction of PNs to zero, lengthy MZTs and limited spare generation capacity available to meet peak demand, leaving the ESO with limited options available. It was identified that this often happened with little advance notice, for example on the day in question and sometimes only minutes before gate.

The removal of the ‘within the operational day’ requirement broadens the scope of the Licence Condition.

While Ofgem shared a summary of their analysis to support this change, i.e. that around 40% of the costs were driven by day ahead changes to PN, Ofgem should, share the more detailed analysis to support this assessment associated with the 10 highest cost days between Sept-21 and Dec-21. In particular a breakdown of these costs incurred between assets with MZT less than 60 minutes, CCGTs and Coal. Going forward coal will not be participating in the BM in the same way that it did in 2021 and therefore this information is needed so to understand the effectiveness of Ofgem’s proposal to remove the ‘within the operational day’ requirement for submission of 0 MW PNs this data.

Ofgem should also analyse further the impact of this in order to avoid any unintended consequences of extending the licence condition to day ahead PN changes.

2) Do you agree with our proposal to limit the scope of the condition to generators with an MZT greater than 60 mins? Please provide reasons for your answer.

Yes, we agree with Ofgem’s proposal to limit the scope of the condition to generators with an MZT greater than 60 mins. In our previous response we highlighted that there was a risk that battery storage assets that spend a significant proportion of the day with a PN at 0MW may be adversely impacted. This change would ensure that batteries remain unaffected.

However, as technology advances there may be circumstances where flexible assets or a combination of assets have an MZT of 60-minutes or more. Ofgem should be cognisant of this and ensure that the licence condition evolves to reflect changes and continues to support flexible assets on the system.

3) Is the proposed licence condition drafting in Appendix 1 sufficiently clear? Are there any drafting edits or additions that you would encourage us to consider?

Notwithstanding any changes to the wording based on the outcome of this consultation the current wording of the proposed licence condition is sufficiently clear.

4) Do you agree with our approach to considering excessive benefits, as set out in the draft guidance? Are there any other factors we need to consider for inclusion in the supporting guidance?

In our response to the 2022 Call for Input we explained that we would expect that the accompanying guidance for this new licence condition would be specific and clear on excessive offer price behaviour. The draft guidance is still too high-level and introduces a compliance risk for affected parties.

Ultimately, if Ofgem has a view on what is unreasonable from the winter 2021 behaviour then that would be an appropriate measure for industry to help parties to understand what excessive benefit is. We continue to encourage Ofgem to provide case studies on what is considered to be excessive benefit, preferably based on the high-cost days of winter 2021.

What is excessive benefit?

In the draft guidance Ofgem state that it will collectively take into account a number of factors when assessing if an offer is objectively justified or excessive. Essentially, Ofgem is expecting that a generator's BM offer price must reflect only their 'costs + reasonable profit'.

Specifically in relation to 'reasonable profit' this would need to be ..."commensurate with a level of profitability that is in line with an average for the GB electricity generation sector."

It appears that Ofgem believes that there is a calculation that all parties will be required to do to determine the reasonable profit across the generation sector. We would welcome clarification on this calculation, the time horizon that this should be applied to and whether it is a technology specific calculation.

What is immoderate behaviour?

In our response to the 2022 Call for Input we encouraged Ofgem to publish the analysis which concluded that the 2021 high balancing cost behaviour was immoderate and as well as the criteria used to make such an assessment so that the industry has a clear example of why such behaviour is viewed in this light.

Essentially, if this Inflexible Offers licence condition had been in place in 2021 and Ofgem saw the 'immoderate' behaviour from the few generators at the time, would Ofgem see that behaviour as excessive and in breach of the proposed Licence? If so, it will be really helpful to confirm this is the case and share the specific case studies so that all parties can use them to analyse what circumstances are excessive.