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By email only

13 March 2023

OVO response to Ofgem's 'Consultation on Inflexible Offers Licence Condition'

Dear Robin,

OVO welcomes Ofgem's continued engagement with stakeholders to improve the current market arrangements to address high balancing costs.

A key risk to retailers is generator bidding behaviour in the Balancing Mechanism resulting in extreme cashout prices. OVO strongly supports interventions that will reduce the costs incurred by the ESO to balance the system and ultimately reduce costs passed to consumers.

OVO broadly supports Ofgem's proposal to add a new licence condition prohibiting electricity generators from gaining excessive benefit from inflexible offers in the Balancing Mechanism (BM).

We continue to support consideration of broader market reforms by Ofgem that will contribute to the reduction of higher balancing costs, alongside the proposed licence condition.

OVO has provided responses to the consultation questions in Appendix 1.

Should you have any questions, please contact policy@ovoenergy.com.

Kind regards,

Samantha Cannons

Regulation Manager, OVO Energy

Appendix 1 - OVO responses to Consultation on IOLC questions

Q1) 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.

OVO agrees with the proposal to remove the 'within the operational day' requirement for submission of 0MW PNs. We support this change as it removes the potential incentive for generators to submit 0MW PNs at the 'day ahead' stage, who could still be afforded the opportunity to gain excessive benefits as a result of their inflexibility, without breaching the licence condition.

Q2) 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.

OVO agrees with the proposal to limit the scope to an MZT greater than 60 minutes. We agree on the basis this will support the optimisation practices of the storage generators, who have greater flexibility and agility to respond to margin signals.

Q3) 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?

OVO believes the proposed licence condition drafting is sufficiently clear and we do not have any additions or drafting edits for consideration. However, this needs to be appropriately supplemented with detailed guidance and clearer explanation for each of the factors to be considered by Ofgem in assessing a potential breach.

Q4) 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?

OVO is supportive of the development taken by Ofgem of the draft guidance since the initial draft was issued for the Call for Input. However, we consider the latest version of the guidance still needs to further outline the definition of 'excessive benefit' and the associated conditions of the factors taken into account when an offer is objectively justified or determined as excessive by Ofgem.

It remains unclear regarding the data that Ofgem will use to identify the triggering data points to undertake their initial assessment of the 'potential breach' conditions and when Ofgem will request additional information from generators who may be engaging in 'excessive benefit' behaviours. The guidance needs to set out:

- Clear scenarios and conditions for each of the factors under consideration by Ofgem;
- Ensuring all potential breaches require submission of information from the relevant generators to Ofgem.