
13th March 2023

To: Ofgem
Attn: Robin Dunne – Robin.Dunne@ofgem.gov.uk

Re: Consultation on Inflexible Offers Licence Condition (IOLC)

West Burton Energy (WBE) owns the 1300MW West Burton B CCGT and Battery assets in Nottinghamshire, UK. WBE is wholly owned by various funds and accounts managed by EIG who acquired the assets from EDF Energy in August 2021. EIG is a leading investor in the energy and infrastructure sector headquartered in Washington, D.C.

The purpose of our letter is to provide our response and comments to the IOLC consultation.

Statement of Issue

WBE would like to understand more clearly the issue that Ofgem are trying to resolve by the implementation of the IOLC. The previous call for information appeared to be aimed at a very specific issue where generators, at very short notice intra-day, amended their generation profile thus creating an issue for ESO who were then required to accept these generators at very high prices for long duration to maintain operation during the darkness peak.

The broad scope of change propose within the current consultation, does not specifically target the behaviour as outlined above, but instead it introduces a fundamental change to a well-established principle that, subject to compliance with the provisions of the Grid Code, REMIT and other market obligations, all generators are entitled to choose how to dispatch their plants in the GB market.

The IOLC, as proposed, seeks to change this principle for operators of CCGT technology placing a de-facto cap on profits that can be earned from Balancing Mechanism activity, reducing the flexibility that these plants offer the ESO intra-day and creating a significant additional compliance burden. This is against the backdrop of a market where these plants will increasingly be running at lower load factors and therefore more likely to participate in the Balancing Market.

The UK is keen to increase and support new investment within the GB market, with the results of the CM auction seeing significant storage and two new gas assets brought forward. The implementation of conditions such as the IOLC, which the unintended consequences have not been fully considered, will impact the business and financing for these new projects, and could put at risk future security of supply.

Balancing Market

Ofgem has made it clear that the Balancing Market is a market in its own right and that arbitrage between the Balancing Market and the Energy Market is acceptable.

If a generator has sold its forward position and this is reflected in its Physical Notification, it should be free to purchase its forward position and make its unit available instead to the ESO via the Balancing Market. The Physical Notification made by the Generator must be a best reflection of its intended generation and therefore the action of procuring energy by one generator should result in a corresponding action i.e. as one station decreases generation another should be increasing.

The IOLC seeks to inhibit this behaviour by making it clear that arbitrage between these markets is not feasible for any large scale asset where the taking of such action is deemed to be for “profit-taking” purposes i.e. if a generator considers that market prices do not reflect the true value of its capacity in the market. This is how efficient markets work and it is for the ESO to ensure that it procures the cheapest form of capacity available in the markets to maintain a secure and reliable energy system.

Dynamic Parameters and System Limitations

Minimum Zero and Non-Zero Times are used by operators of physical assets to manage their Long Term Service Arrangements and ensure they comply with start limits for major maintenance and inspection. These dynamic parameters are intended, as per the National Grid ESO Managing Starts guidance, to allow operators to limit the cycling of machines, and the stress on the gas turbines and balance of plant equipment. A MZT of 60 minutes is clearly not possible for operators of CCGT plants to undertake on a repeated basis for contractual reasons, however they may be able to offer this infrequently if it was managed appropriately. CCGTs are not technically ‘inflexible’.

Ofgem has however stated that all dynamic parameters should be fixed and cannot be changed unless necessary for technical reasons. This strict application of the Grid Code means operators of CCGTs are unable to provide the ESO with flexibility in exactly the circumstances that it is most required.. If CCGT generators were able to adjust these parameters for short periods, they could provide a more flexible service when ESO required this.

The static nature of dynamic parameters simply reduces flexibility for the ESO and this will become increasingly difficult with the operation of batteries whose cycling regime is even more dependent on managing long-term warranty and maintenance cover.

Ofgem would be better served focusing on why the ESO systems are so archaic that these are unable to manage multiple different asset configurations in a way which could offer the most system flexibility at the lowest cost to consumers. The Net Zero ambition cannot be achieved without a clear roadmap of ESO System upgrade plans, which will allow them to deal, on a real time basis, with a much more complex configuration of assets and system issues that they had when NETA was introduced in 2001.

Questions

- 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.**

No. WBE does not agree with Ofgem proposal to remove the ‘within the operational day’. As mentioned above, we believe this does not align with the objective of removing the specific behaviour by generators that was the trigger for this proposed rule change. The removal of this clause, means that CCGTs or other units with longer MZTs are unable to recover scarcity rent in the market without significant risk of action by the regulator. This will increase the “missing money” in the market leading to unintended consequences and in the long run increasing capacity market prices.

Previously the inclusion of the ‘within the operational day’ language, accounted for the fact notice was important to the ESO, at which time they have more options which they may instruct or procure to ensure there are adequate supplies, whereas intraday the options are more limited.

All generators should be able to amend their running profile in response to market signals whether they be for day ahead or within day. Market fundamentals are continuously fluctuating, in particular weather forecasts of available generation as well as the risks and portfolio implications for independent operators therefore any restriction of this nature will have inadvertent effects on the wider market and create imbalance pricing issues.

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.

No. WBE does not agree with the proposal to limit the scope to those generators with MZT greater than 60minutes. This has the effect of explicitly targeting CCGTs despite the fact they are one of the most flexible generators in the UK market and provide a key service is responding to system requirements when the renewable outputs are low. CCGTs have the ability to shutdown and restart within 60minutes, however MZT are used in conjunction with MNZT to manage long term maintenance and service agreements, as per the guidance published in the ESO Managing Starts documents.

Ofgem stipulates that dynamic parameters may not be changed for any reason, other than technical reasons, which means that generators cannot provide as much flexibility as they can in fact offer. ESO systems should be developed to allow generators to provide multiple 'offerings' i.e. accounting for the wear and tear on turbines and balance of plant machinery in undertaking cycling in a shorter time frame. By imposing this rule change, Ofgem are inadvertently reducing flexibility and the market entry for CCGTs to the Balancing Mechanism and Intraday markets rather than focusing on the real issue which is the inadequacy of the ESO's balancing systems and tools.

The focus should be on updating of the ESO control room systems, which need to account for new technology better, and to allow for additional flexibility and offerings from the existing fleet which would lead to more efficient, low carbon dispatch as units would only be run when they are really needed.

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?

No. WBE does not agree with the principle or reasoning behind the change and therefore do not wish to comment on the drafting.

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?

The guidance provided around 'excessive benefit' and 'reasonable profit' is vague, imprecise and unclear.

Excessive benefit has not been defined, and is completely open to interpretation. Excessive benefit in a single period may not be excessive when looked at over a longer period where, for example, in circumstances where a plant has operated at very low load factors. Further, the definition of reasonable profit does not include factors such as operational (imbalance cost) or credit risk in relation to hedging forward even at the day ahead stage which represents a greatly increased risk vs operation in the balancing market.

Your faithfully



Lisa Mackay
West Burton Energy
