Decision

Final Decision to introduce Standard Licence Condition 20B: Inflexible Offers Licence Condition

Publication date:	31/08/2023
Contact:	Olivia Jones and Luke McCartney
Team:	Domestic Market Management
Email:	WholesaleMarketPolicy@ofgem.gov.uk

On 29 June 2023 we consulted on our proposal to introduce a licence condition prohibiting electricity generators from gaining excessive benefit from inflexible offers in the Balancing Mechanism (BM).

This document provides our decision to introduce Standard Licence Condition 20B: Inflexible Offers Licence Condition (IOLC) into the Electricity Generation licence.

This licence condition will prohibit generators from taking advantage of their dynamic parameters in order to obtain an excessive benefit from inflexible offers in the Balancing Mechanism when their units are operated in a manner that limits their responsiveness to market and system conditions.

The new licence condition will come into effect on 26 October 2023.

Any enquiries related to the text of this publication should be sent to Ofgem at:

10 South Colonnade, Canary Wharf, London, E14 4PU.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to: psi@nationalarchives.gsi.gov.uk

Contents

1. Introduction

1.1 Between 2017 and 2020 total balancing costs for the four months of winter (November to February) averaged just under £500m each winter. For winter 2021/22 this rose alarmingly to over £1.5bn, with record breaking daily costs being experienced during the period. Overall, in 2021/22 the ESO incurred balancing costs of £3.1bn.

1.2 The large increase in balancing costs in 2021/22 was primarily driven by increased offer prices, rather than increased volumes having to be purchased by NGESO. Following record breaking daily balancing costs of over £60million on 24 November 2021, NGESO initiated an independent review of the Balancing Mechanism (BM).[1]

1.3 In July 2022, we published an open letter which set out our concerns and intent to respond to the growing prices and costs in the BM.[2] Following this, in November 2022, we published a Call for Input which sought views from industry on six options we were considering to reduce high balancing costs.[3] We assessed all options, held a stakeholder workshop, reviewed the responses to the Call for Input, and decided to pursue Option 4 - introducing a new licence condition.

1.4 In February 2023, we published a consultation which asked for views from industry on the proposed licence condition and draft IOLC Guidance.[4] In the February Consultation we proposed to broaden the scope of the condition (from the version included in the call for input) such that it would cover the submission of 0MW PNs at any time, rather than being limited to submissions of revised 0MW PNs 'within the operational day', and also proposed to limit the scope of the condition to generators with an MZT greater than 60-minutes. We also asked stakeholders' views on the proposed licence drafting, our approach to considering excessive benefits as set out in the draft Guidance, and for feedback on any other factors for inclusion in the draft Guidance.

1.5 We formally issued a Statutory Consultation on 29 June 2023, which closed on 27 July.[5] The Statutory Consultation discussed the feedback received following the February Consultation and our views. We proposed an updated version of the draft

[1] ESO Balancing Market Reviews | ESO (nationalgrideso.com)
[2] Open letter on responding to the high balancing costs | Ofgem
[3] Call for Input on options to address high balancing costs | Ofgem
[4] Consultation on the Inflexible Offers Licence Condition | Ofgem
[5] Statutory Consultation on the Inflexible Offers Licence Condition (IOLC) | Ofgem

licence condition (from the version set out in the February Consultation) which included:

- Reinstating the focus of the licence condition to being the submission of revised 0MW PNs 'within the operational day',
- Keeping the proposed scope of the condition as applying only to generators with an MZT of longer than 60-minutes,
- Updating our approach to assessing excessive benefit and reasonable profit in the BM,
- Clarifications on proposed licence drafting, and
- Areas that were beyond the scope of the IOLC.

1.6 We then asked for any further general feedback on the proposed IOLC licence condition, draft Guidance document and Impact Assessment, which we have assessed and will be discussed in this decision document.

Decision-making stages

Date	Stage description
29/06/2023	Stage 1: Statutory Consultation open
27/07/2023	Stage 2: Statutory Consultation closes (awaiting decision), Deadline for responses
31/08/2023	Stage 3: Responses reviewed, Final Decision published
26/10/2023	Stage 4: IOLC comes into effect

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to WholesaleMarketPolicy@ofgem.gov.uk

2. Summary of Responses

2.1 We received 18 responses from companies, and 51 individual responses in support of one company response, to our Statutory Consultation on the IOLC. In summary, ten of the responses we received were positive about the changes proposed in the Statutory Consultation, whilst six responses were not supportive and raised various challenges and concerns. The other two responses did not give views on whether they were supportive or otherwise about implementing IOLC.

2.2 The ten positive responses were generally pleased that we had made the licence condition more targeted with our proposal to reinstate the 'within the operational day' text and that we have given more information in the Guidance. Those in support believe that this licence condition will lead to better outcomes for consumers via lower balancing costs, whilst also supporting more flexible providers.

2.3 We discuss below the key themes arising from the statutory responses.

Proposal to reinstate the "within the operational day" requirement for submission of 0MW PNs

2.4 The majority of responses we received were in support of the proposal to reinstate the wording 'within the operational day' to the licence condition. Responses noted that this change will minimise the possibility of unintended consequences as a result of IOLC, such as security of supply impacts if generators returning from outage were to be disincentivised from returning quickly. They also agreed that IOLC would be a more targeted intervention due to it tackling the specific issue of generators amending their PNs to 0MW at short notice and using their dynamic parameters to have offers accepted at an inflated price for an extended period of time.

2.5 Three respondents however disagreed with the reinstatement of 'within the operational day' to the licence condition, stating it may not reduce the impact on balancing costs compared to the proposal for the licence to cover any period in which a generator submits a 0MW PN. However, two of these respondents acknowledged our reasoning for the reinsertion of this text and thus are still in agreement with the implementation of the licence condition. They also highlighted their support for our commitment to monitoring the impact of this licence condition on the behaviour of generators with regards to when PNs are submitted/revised.

2.6 After considering the responses, we have decided to proceed with the licence condition applying in respect of the revision of PNs from a positive MW value to

0MW only within the operational day. However, we are aware that units that submit 0MW PNs prior to the operational day could use their inflexibility in a way that leads to high balancing costs. Therefore, we will continue to monitor market behaviour post implementation. We will intervene further if we believe the submission of 0MW PNs at the day ahead stage is creating outcomes and costs that are not in consumers' interests.

Limiting the scope of the licence condition to generators with an MZT of greater than 60 minutes

2.7 Overall ten respondents specifically mentioned the limitation of the scope of the IOLC to generators with an MZT of longer than 60 minutes. Three respondents reiterated their support for this scope, highlighting this will ensure that technologies that do not take advantage of their MZTs to have high offer prices accepted for extended periods of time will not be targeted by the IOLC. One of these respondents agreed that the IOLC should be targeting those who use dynamic parameters in a way that materially impacts BM costs. However, two respondents highlighted that Ofgem should keep this limitation under review and monitor the developments of new technologies that could fall within the scope of the IOLC. Another respondent raised a similar concern on a specific new technology type, suggesting that the IOLC could create a barrier for these new technologies.

2.8 We will continue to monitor the impact IOLC has on the market. However, if in the future a technology enters the BM and requires an MZT of above 60-minutes it will have to comply with the IOLC if it revises its PN to 0MW within the operational day.

2.9 Five respondents raised concerns that the IOLC could discriminate against generators with an MZT above 60 minutes. Most of these responses highlighted that they are unconvinced that the lack of flexibility from these units is a relevant consideration and believe that the condition is unfairly targeting a specific subset of generators. A few responses believed that the IOLC could be discriminatory as it would restrict a subset of generators from pricing using established market principles. This is because they believed the IOLC imposes a blanket pricing restriction on generators who have revised their PN to 0MWs and have an MZT above 60 minutes. They think that it does not allow them to profile their offer prices to reflect market conditions and thus restricts them from scarcity pricing. Two of these respondents also raised concerns as to compliance with EU Regulation 2019/943, EU Regulation 2017/2195, the Balancing Guideline; and the EU-UK Trade and Cooperation Agreement.

2.10 Paragraph 3.5 and 3.6 of the IOLC Statutory Consultation set out our views on why we did not agree that this proposal was discriminatory. We believe that the IOLC is targeted at the circumstances in which generators are able to act (and indeed have acted) in a manner that results in them obtaining an excessive benefit from their BM offers. Critically, this excessive benefit stems from the ability of those generators to have higher offers accepted in the BM for a number of settlement periods beyond those periods of peak demand and only as a result of their dynamic parameters and their actions to revise their PN to 0MW.[6] These circumstances do not apply in respect of those generators with shorter MZTs.

2.11 It is correct that generators with an MZT of 60 minutes or less are able to scarcity price in peak periods of demand. Such generators, however, are not able to extract higher offer prices over an extended period in the preceding non-peak periods. Once IOLC is in effect, generators with an MZT of longer than 60 minutes will continue to be able to submit offer prices that reflect scarcity (in the same way as other generators) in circumstances when they have not chosen to revise their PN to 0MW, and in this way are as flexible as those other generators at those peak periods. We have designed the scope of the IOLC so that it captures (in a targeted and proportionate manner) those circumstances in which we have evidence of these actions by some generators occurring, resulting in high balancing costs.

2.12 In this context, it is worth noting that we have also added clarity in the Guidance that when enforcing the IOLC we will focus on the price of those offers submitted in the BM which apply to levels of output from 0MW to a BM unit's Stable Export Limit (SEL)[7] as this is where the inflexibility occurs.

2.13 As stated previously, there are technical differences between generating units with different MZTs which justify the different treatment of those units, in the limited circumstances set out in the IOLC. In this way, we consider the IOLC to be proportionate and well targeted.

2.14 One respondent also agreed with our justification on including this limitation and did not consider the 60-minute MZT requirement to be discriminatory towards generators with longer MZTs. This is due to those with shorter MZTs being restricted in both the total supply of energy they can produce at any time and in length of time over which they can operate.

[6] Examples of these circumstances are in Figure 4 and 5 of the IOLC Impact Assessment.
[7] Stable Export Limit (SEL) – the minimum value a BM Unit can, under stable conditions, export to the National Electricity Transmission System.

2.15 One respondent did however raise a specific concern that the IOLC may be discriminatory to generators who revise their PN to 0MW within the operational day to reflect changing market conditions but with no intent to use their MZTs to extract higher offer prices from the ESO for longer periods.

2.16 Whilst we acknowledge this concern, irrespective of whether the generator has the intent or not to use their inflexibility to extract higher offer prices, the fact that the generator has submitted a revised 0MW PN means it has the *potential* to do so. Therefore, the generator should not obtain an excessive benefit and must submit offers in the BM at levels which would result in them not obtaining a significantly greater benefit than they would have, absent their submission of a revised PN to 0MW.

2.17 One other respondent stated that they did not agree that the licence condition should limit any technology type. However, they acknowledged that units with low MZTs cannot participate in the behaviour which IOLC targets, and that their commercial positioning leads to a greater need to regularly revise their PN. As a result, this respondent did not see the limitation of generators with 60-minute or below MZTs being a direct blocker for this licence condition.

2.18 Two respondents noted paragraph 3.7 in our Statutory Consultation as a concern. They did not believe that the ESO's utilisation of larger plant for positive (operating) reserve is a relevant consideration for regulating pricing in the BM for CCGTs.

2.19 To clarify, and as noted at paragraph 2.13 above, the aim of this paragraph was to set out the technical differences between the capabilities of generators.

2.20 Finally, one respondent noted that Ofgem should allow the adjustments of dynamic parameters or provide the ability to submit multiple offers with different options to the ESO.

2.21 Dynamic parameters, such as MZTs, are required under the Grid Code[8] to be set at a level which reflects the true operating characteristics of their plant. It is important to note that generators should continue to meet our expectations on the submission of dynamic parameters as set out in our 2020 Open letter.[9]

[8] THE GRID CODE (nationalgrideso.com), Grid Code BC2.5.3.1, Grid Code BC1.4.2(e)
[9] Open letter on dynamic parameters and other information submitted by generators in the Balancing Mechanism | Ofgem

Guidance and assessment of excessive benefits

2.22 We have issued updated Guidance alongside this decision, which takes into account the various responses that we have received during the Statutory Consultation period. Overall, the Guidance continues to set out the same key aspects of our assessment of excessive benefit, although as set out below, it now contains some useful additional clarifications.

2.23 In total, 12 respondents made specific comments on either the draft Guidance or our assessment of excessive benefit. Six responses welcomed the amendments to the Guidance clarifying how we will assess if an offer is excessive. These responses noted that the Guidance provides the clarity requested by stakeholders and now encompasses a wider range of cost considerations.

2.24 However, four respondents highlighted challenges in developing their pricing strategy based on the Guidance. These responses stated that the Guidance is confusing and gives Ofgem too much discretion, with one response stating that the Guidance does not provide sufficient clarity on how excessive benefits would be assessed. Another respondent stated that Ofgem is introducing wide-ranging powers which can be used to investigate parties when it does not like their BM pricing strategies, while one respondent emphasised the definition and assessment of "excessive benefit" is unclear and open to reinterpretation by Ofgem on a case-by-case basis.

2.25 It should be noted that any assessment of IOLC would (by its very nature) be case specific. We must consider the circumstances of each case. Therefore, the non-exhaustive nature of the Guidance ensures we are not limited from assessing all possible variables and should also give generators confidence that they could show Ofgem other evidence to explain why they have not gained or sought to gain an excessive benefit. We would have regard to the Guidance when carrying out investigations into potential breaches of the IOLC, however, it is the licence condition itself which provides the definite framework against which compliance would be assessed. This approach is similar to that taken in various other contexts, including in relation to investigations into potential breaches of the Transmission Constraint Licence Condition (TCLC).

2.26 We also had some specific feedback from respondents on how we would assess the IOLC. Two respondents noted the benchmarks associated with our assessment of reasonable profit and highlighted the challenges of being assessed against comparable generators and formulating a price based on this. Another two

respondents stated that it is unfair to determine excessive benefit based on an average. Whilst a further respondent raised a concern with Ofgem assessing both £/MWh and total (£) benefit. This response noted that a large CCGT that offers a large volume is more likely to see its offer price considered excessive, compared to a smaller CCGT offering the same price in £/MWh. This respondent noted the volume accepted is a matter for the ESO, not the generator, and therefore any excessive benefit assessment should be based on the £/MWh offer price and not on total benefit.

2.27 Having reflected further on this, we have updated the Guidance to be clearer as to the more limited scope in which we are likely to consider comparisons with other generators. We expect to predominately review the costs and benefits of the individual generator and the difference in profit margin compared to what the generator would have earned had it run to its original PN. As a result, we have removed references to comparing generator profits against one and other. See paragraph 3.16 and 3.17 in the Guidance, which sets out how we would consider if a profit was unreasonable.

2.28 A few respondents requested further clarity on how IOLC would work in practice through reference to a number of specific example scenarios. For example, when a generator revises their PN to 0MW within the operational day to avoid running at a loss due to changes in market conditions, or when a generator revises a PN to 0MW as part of optimising a portfolio of generation units.

2.29 We understand concerns that when prices move within day to make running a plant unprofitable, the draft Guidance could suggest an offer would need to be loss-making to be compliant. This is not the intention of IOLC, and we have clarified this point in the final Guidance. For other scenarios, the fact that the generator has submitted a revised 0MW PN means it has the *potential* to use its inflexibility to extract higher offer prices. Therefore, the generator should not obtain an excessive benefit and must submit offers in the BM at levels which would result in them not obtaining a significantly greater benefit than they would have, absent their submission of a revised PN to 0MW.

2.30 Two respondents asked for clarity on whether IOLC only applies to the offers to SEL. They highlighted that once a generator is at SEL, flexibility to generate above SEL is not constrained by MZT. The respondents suggested that IOLC should be targeted at offer prices on generation up to SEL, stating that generation above SEL is no different to any other flexible plant and therefore should not be treated any differently.

2.31 We recognise stakeholder views that once a generator is at SEL they are not constrained by their MZTs and are able to increase and decrease their output in a flexible manner. The purpose of IOLC is to prevent excessive offers for longer periods of time, due to the inflexible nature of a generator's dynamic parameters. As a result, we have clarified in our Guidance that in enforcing the IOLC we will focus on the price of those offers submitted in the BM which apply to levels of output from 0MW to a BM unit's SEL as this is where the inflexibility occurs.

2.32 It should also be noted that we will continue to monitor generator behaviour post implementation with respect to the submission of SELs. We will intervene further if we believe the submission of SELs are creating outcomes and costs that are not in consumers' interests.

Scarcity Pricing

2.33 We received six responses highlighting the impact of the IOLC on the ability of generators to factor scarcity into their BM prices. These respondents believed that the IOLC restricts certain generators from scarcity pricing as a result of their dynamic parameters. A further four respondents highlighted the importance of scarcity pricing for investment in both existing and flexible generators whilst also pointing to the key role scarcity pricing has in decisions on what to price in other markets.

2.34 Two respondents welcomed the clarity Ofgem gave on scarcity pricing in our Statutory Consultation and Guidance, although one of these respondents believed that the Guidance didn't go far enough in defining scarcity pricing.

2.35 It is important to clarify and confirm that there has been no change to Ofgem's overall position on scarcity pricing.[10,11] In the wholesale energy market, we acknowledge that in certain situations, for example where the margin between available capacity and peak demand becomes tight, a scarcity premium may be built into offer prices. Occasional high prices in these periods of genuine scarcity can provide an important signal to support supply meeting demand and may also incentivise investment in additional generation capacity or demand response.

2.36 Nevertheless, we are introducing IOLC because the level and frequency of high prices seen in the BM in winter 21/22 were much higher than those seen in previous years. These prices were often many multiples of the clearing prices in the day-

[10] Open letter on trends in balancing costs in 2021 | Ofgem
[11] Open letter on scarcity pricing and conduct in the wholesale energy market | Ofgem

ahead markets and submitted for long durations outside of periods of genuine scarcity. We believe that IOLC will better ensure that scarcity prices in the BM correspond to times of genuine scarcity. This should give a more accurate market signal and promote more efficient investment.

Recommendations and other considerations

2.37 We received a number of recommendations and further points of consideration for the IOLC in the responses to our Statutory Consultation. We have set out our view on these below.

2.38 One respondent recommended that the IOLC should not penalise economically rational risk management behaviour. They believed that generators must be able to respond to factors such as plant trips, gas price changes, and cash out risk in an economically rational manner without the risk of investigation into their BM pricing. They recommended that Ofgem should clarify that IOLC will not apply to generators who can demonstrate that the decision to buy back their position[12] and revise their PN to 0MW within day was economically rational.

2.39 We believe that bullet points in paragraph 3.14 of the Guidance address the respondent's concern on allowing risk management to be included in offer pricing after revising its PN to 0MW within the operational day. This section notes that we will consider variable costs such as fuel and risk of plant failure. Also, as mentioned in our Statutory Consultation, we do not disagree with reoptimizing PNs within day if the market signals imply that it is economic to do so. We do not agree, however, that any excessive benefit should be gained through reoptimizing PNs to 0MW and using the inflexibility created by dynamic parameters to extract high priced BM offer acceptances over an extended duration.

2.40 The same respondent also recommended that the IOLC should not unfairly capture issues beyond a licensee's control or normal practices. They believed that the IOLC could unfairly restrict a generator's ability to capture returns reflective of market conditions where they are acting logically.

2.41 We are aware that generators may have to revise their PN to 0MW within the operational day as a result of factors that are out with their control. However as discussed above, the fact that the generator has submitted a revised 0MW PN

[12] Buy back is when a generator has previously sold electricity in a forward market and has a contractual obligation to deliver electricity. In order to PN to 0MW (and avoid imbalance charges) the generator must purchase the generation it is required to deliver from elsewhere.

means it has the *potential* to use its inflexibility to extract higher offer prices. Therefore, the generator should not obtain an excessive benefit and must submit offers in the BM at levels which would result in them not obtaining a significantly greater benefit than they would have, absent their submission of a revised PN to 0MW.

2.42 This respondent also believed that IOLC should be time limited as it is a significant intervention and they do not consider the behaviours that IOLC is intending to tackle will be a significant concern on an ongoing basis.

2.43 We do not agree that the IOLC should be time limited. We believe that the behaviour we are trying to address with IOLC could continue to occur if the IOLC is not in place. However, we will commit to monitoring the impact of the IOLC on all areas covered in the Impact Assessment and will act accordingly if there is evidence to suggest that the IOLC was having an adverse effect compared to its intent. We will also be monitoring generator behaviour post implementation of the IOLC and will intervene further if necessary. We are aware of the current Review of Electricity Market Arrangements (REMA) which is being led by government. If any outcomes from this could have an impact of the effectiveness of IOLC we will review the merits of the licence condition.

3. Licence Drafting

3.1 We have decided to proceed with the licence condition applying only when generators have an MZT of greater than 60 minutes and when they revise their PN from a positive MW value to 0MW within the operational day. This ensures that the IOLC better targets the specific harm we have identified.

3.2 One respondent also suggested a slight tweak to the licence condition in order to include the text 'or sought to obtain' in paragraph 2, which highlights the assessment on if an excessive benefit has been obtained.

3.3 We believe that paragraph 2b has the same effect as the intent behind the proposed amendment due to it highlighting that "under the Relevant Arrangements and in connection with an increase in electricity generation the licensee is paid **or seeks to be paid**, an excessive amount by the system operator." The definition of relevant arrangement also has the same intent, as it states "shall include the making of an offer by the licensee whether or not that offer is accepted". Therefore, we have not amended the licence condition text.

4. Guidance

4.1 We have reviewed the responses to our Statutory Consultation and made adjustments to our Guidance based on the feedback we received.

4.2 We have removed references to the comparability of other generators. The main assessment of reasonable profit will be if a generator obtains (or seeks to obtain) a total profit margin in pounds (£) that is significantly greater than that which would have been expected had the generator not revised its PN to 0MW within the operational day and had instead generated in line with its positive PN.

4.3 It should be noted that, as part of any assessment we may also consider the costs and benefits of other generators. This could be relevant where, for example, we are assessing the reasonableness of information on costs that has been submitted to us by a generator, or forming a view on the level of profit which would likely have been earned had the generator dispatched in line with its original PN.

4.4 We have also added further clarity on how we will assess generators who have revised their PN to 0MW within the operational day to avoid running at a loss. In these scenarios the IOLC will not require generators to submit loss-making offer prices. We would expect generators' subsequent BM offers to reflect costs plus a reasonable profit as set out in our Guidance.

4.5 We have also added additional information to the Guidance based on stakeholder feedback, that when enforcing the IOLC, we will focus on the price of those offers submitted in the BM which apply to levels of output from 0MW to a BM unit's SEL, as this is where the inflexibility occurs.

4.6 Finally, we have also added additional points of clarity to the Guidance on how we will split any assessment into two parts. Firstly, the cost and benefits of generating and then the assessment of reasonable profit. In addition, we have also added clarity on how to evidence uncertain cost and benefits.

5. Next steps

5.1 The decision notice and licence condition have been published alongside this document. This modification to the electricity generation licence will take effect from 26 October 2023

5.2 As mentioned throughout the decision we will continue to monitor the impact the IOLC has on the market post implementation. This will ensure that the licence condition continues to be targeted and proportionate to the issue we are trying to address.

Appendix 1 – IOLC final licence condition text

Condition 20B. Inflexible Offers Licence Condition

1. The licensee must not obtain an excessive benefit from electricity generation in respect of a Settlement Period in relation to which it has revised its Physical Notification (in respect of a unit which has a Minimum Zero Time of longer than 60 minutes) from a positive MW value to zero MW within the Operational Day.

2. For the purposes of paragraph 1, the licensee shall be considered to have obtained an excessive benefit from electricity generation in relation to a Settlement Period (where each of the other requirements of paragraph 1 is met) if each of the following conditions apply in relation to that Settlement Period:

    a. the licensee and the system operator enter into, or have entered into, Relevant Arrangements in respect of a Balancing Mechanism Unit owned or operated by the licensee; and

    b. under the Relevant Arrangements and in connection with an increase in electricity generation the licensee is paid or seeks to be paid, an excessive amount by the system operator.

3. For the purposes of paragraph 2 the reference to an increase in electricity generation by the licensee in respect of a particular Settlement Period means an increase in comparison to the licensee's Physical Notification of zero MW.

4. This licence condition shall be interpreted and enforced in accordance with guidance published by the Authority.

5. Before this condition comes into force the Authority shall publish the guidance referred to in paragraph 4.

6. Before the Authority publishes the guidance referred to in paragraph 4 the Authority shall consult:
    a. the holder of any licence under section 6(1)(a) of the Act; and
    b. such other persons as the Authority thinks it appropriate to consult.

7. The Authority may from time to time revise the guidance referred to in paragraph 4 and before issuing any such revised guidance the Authority shall consult such person as specified in paragraph 6 setting out the text of, and the reasons for, the proposed revisions.

8. The licensee shall provide to the Authority, in such manner and at such times as the Authority may reasonably require, such information as the Authority may require or deem necessary or appropriate to enable the Authority to monitor the licensee's compliance with this condition.

9. In this condition:

"Balancing Mechanism"	means the mechanism for the making and acceptance of offers and bids to increase or decrease the quantities of electricity to be delivered to, or taken off, the total system at any time or during any period so as to assist the system operator in coordinating and directing the flow of electricity onto and over the national electricity transmission system and balancing the national electricity system pursuant to the arrangements contained in the BSC
"Balancing Mechanism Unit"	means a unit of trade within the Balancing Mechanism
"Minimum Zero Time"	means either the minimum time that a Balancing Mechanism Unit which has been exporting must operate at zero or be importing, before returning to exporting or the minimum time that a BM Unit which has been importing must operate at zero or be exporting before returning to importing, as a result of a Bid-Offer Acceptance, such minimum time being as per the most recent notification by the licensee to the ESO pursuant to the Grid Code
"Operational Day"	has the meaning given in the Grid Code[13]
"Physical Notification"	means a notification of the intended level of generation made by the licensee to the system operator for a period pursuant to the notification arrangements established by BETTA and the BSC
"Relevant Arrangements"	means arrangements entered into by the licensee and the system operator within the Balancing Mechanism, and the entering of such arrangements shall include the making of an offer by the licensee whether or not that offer is accepted by the system operator

[13] Currently the Grid Code definition is "The period from 0500 hours on one day to 0500 on the following day."

"Settlement Period"	has the meaning given in the Grid Code[14]

[14]Currently the Grid Code definition is "A period of 30 minutes ending on the hour and half-hour in each hour during a day."

Appendix 2 – IOLC Guidance

Please see the standalone Appendix 2 document for the final version of the Guidance on the application and enforcement of the Inflexible Offers Licence Condition.