

SSE Non-confidential response

Dear Luke

SSE Response to Statutory Consultation on the Inflexible Offers Licence Condition

This response is the view of SSE plc (SSE) with a focus on the position of SSE's Energy Businesses: SSE Renewables, including Solar and Battery; SSE Thermal; SSE Distributed Energy; and Energy Portfolio Management, which provides the route to market for SSE Group companies. Our response also considers the impact of balancing costs on SSE Business Energy, our non-domestic supply business which supplies energy to c500,000 businesses and industrial consumers in Great Britain.

SSE is pleased that the Inflexible Offers Licence Condition (IOLC) will be limited to times when a generator revises its Physical Notification (PN) within the operational day (WD). In our view this better targets the specific behaviour that Ofgem has identified as problematic.

Guidance

We do not advocate that Ofgem should offer prescriptive guidance to market participants and fully appreciate how difficult it is to provide guidance to be applied in a market which is frequently changing. With that in mind, we would hope that Ofgem will assess compliance with the IOLC pragmatically taking into consideration a wide range of influences on both price and market conditions in relation to a particular course of action by a generator.

We are especially mindful of this in relation to paragraphs 2.8¹ and 2.12² of the guidance. Ofgem must not be closed to assessing how other factors influence market price movements, such as plant failure, following the reoptimisation of a generating unit. We have set out examples of such scenarios in Appendix 1.

Scope of the IOLC

We note that Ofgem commits to intervening further where there are concerns that the day ahead submission of a OMW PN is creating an outcome which is not in consumers' interests. However, we would also hope that Ofgem will also keep under review the impact of the IOLC as a whole and other areas which are touched on but with little detail in the Impact Assessment. Such key areas would be;

Impact on Investments - While the BM may not provide long-term investment signals it does influence other prices which could provide such long-term signals for investment. Additionally, return from participating in the BM is an important factor for close/don't close decision for existing assets. It will be important to consider and assess how the IOLC affects the BM and in turn these decisions.

¹ 2.8 In order to assess whether a price was excessive, we will consider whether that price was set at a level which meant that the benefit that the licensee either obtained or sought to obtain in relation to a revision of its PN to OMW within the operational day was significantly greater than the benefit they would have obtained had they not revised their PN to OMW (ie, the profit the generator would have obtained had it generated in line with the positive PN previously submitted).

² 2.12. In addition to the costs noted above, licensees may seek to recover a reasonable level of profit via their offer prices. While what is reasonable will be dependent on the circumstances we consider that it would not be reasonable for a generator to obtain a total margin in pounds (£) that is significantly greater than that which would have been expected had the generator not revised its PN to OMW within the operational day and had instead generated in line with its positive PN.

Security of Supply / Capacity Market - The capacity market tends to procure a minimum amount of capacity, as determined by National Grid Electricity System Operator (NGESO), at the lowest possible price. Changes to the Capacity Market could not only be a means to reduce balancing costs but are also a mechanism to stimulate investment in low-carbon power generation and electricity storage providing longer-term security of supply solutions. While the IOLC is designed to target a specific behaviour, we would encourage Ofgem to work with NGESO and Department Energy Security and Net Zero (DESNZ) to consider whether there are adjustments which could be made to other mechanisms which may also reduce balancing costs in the long-term.

Interconnectors – As highlighted within our response to the February Consultation, interconnectors can have a significant impact on GB balancing costs. Ofgem must continue to monitor the impact of the costs and risks associated with interconnectors such as through high cost trades or simply increasing demand on the GB system, requiring higher cost generation to meet.

Conclusion

SSE agrees with Ofgem's assessment that limiting the scope of the IOLC to generators who submit a OMW PN WD reduces the potential for unintended consequences as a result of the introduction of this new licence condition. We do however encourage Ofgem to be pragmatic when assessing excessive benefit and indeed the effect of this new licence condition on the wholesale energy market in its entirety. Further, while we note that Ofgem has confirmed that the assessment of excessive benefit is separate between the IOLC and Transmission Constraint Licence Condition (TCLC) we hope Ofgem will be mindful of the operational complexity of having different definitions of excess benefit which could apply to the same generating unit. Should the implementation of the IOLC not have the desired, or expected impact, we encourage Ofgem to review other market influences, aside from the behaviour of generators, which can cause high balancing costs. Should you wish to discuss any aspect of this response please do not hesitate to contact me.

Yours sincerely

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