

27th July 2023

To: Office of Gas and Electricity Markets, Ofgem
Attn: Luke McCartney – luke.mccartney@ofgem.gov.uk

Re: Consultation on Inflexible Offers Licence Condition (IOLC)

West Burton Energy (WBE) owns the 1300MW West Burton B CCGT and 50MW Battery Energy Storage System assets in Nottinghamshire, UK. WBE is wholly owned by various funds managed by EIG. .

The purpose of our letter is to provide our comments to the supplementary IOLC consultation published on 29th June 2023.

WBE appreciates that Ofgem has considered industry views and has re-introduced the 'within operational day' language previously proposed in respect of the licence condition. This clearly targets the very specific issue where generators, at very short notice intra-day, amended their generation profile thus limiting ESO options and resulting in a requirement to accept these generators at very high prices for long duration to maintain operation during the darkness peak.

The revised IOLC condition does still place a de-facto cap on profits that can be earned from Balancing Mechanism activity, and could in turn creates new issues for the ESO making it more difficult for them to maintain spinning reserve levels to have required amount of upward and downward flexibility intra day. However, we acknowledge that by reducing the scope to within day the unintended consequences of the new licence condition are significantly reduced.

We also welcome Ofgem's clarification that scarcity pricing will continue to play an important role in incentivising new investment in flexible resources as well as maintaining older assets which are critical in keeping the lights on. We believe that it will be important for Ofgem to monitor how market recipients respond to the new licence conditions as it could restrict parties from offering within-day services that are required by the ESO.

We would however like to re-iterate previous comments that although a minimum zero time (MZT) of 60 minutes is clearly not possible for operators of CCGT plants to undertake on a repeated basis, they may be able to offer this infrequently if it was managed appropriately. CCGTs are not technically 'inflexible' but are restricted from offering flexibility due to the regulatory constraints on adjustment of dynamic parameters under the Grid Code.

WBE fundamentally believes that Ofgem should allow the adjustment of dynamic parameters or provide the ability for operators to submit multiple running options to the ESO. This would provide more flexibility to the ESO and is consistent with the stated aim of the licence condition that parties should not be commanding a scarcity price by amending their intended generation ahead of the darkness peak to target being maintained on the system to meet the real scarcity period later in the day.

Generators may target Balancing Mechanism activity as this presents a much lower risk for plants who may be subject to failures, have credit implications on forward hedging or portfolio considerations. These plants may be able to provide shorter MZT/MNZT, lower minimum levels etc on a short term basis which could provide a better solution for ESO to manage a short term supply issue. The static nature of dynamic parameters mean that these cannot be offered

and leads to lack of flexibility. This also applies to the minimum load level, the fact that submitted offer prices must increase means that a generator cannot offer a lower cost for spinning reserve once on the system. Ideally you would include your start and risk factors in your initial offer price, and then provide the flexibility between min and max a lower price, and more reflective of other units in the market which would mean the value associated with this spinning reserve could provide a discount to the initial offer price for start-up. The current system does not allow this flexibility, which seems like a simple solution to implement. We therefore urge Ofgem to encourage the ESO to develop a more dynamic dispatch system which includes more optionality for dispatch.

In conclusion we are supportive of the amendments that Ofgem have made in response to comments, but do not in general support the implementation of regulations like these which may restrict both flexibility and investment and would prefer that the focus was on improvement of system optionality with ESO dispatch system.

Your faithfully

Lisa Mackay
West Burton Energy

By email
