

InterGen views on TCLC

ABOUT INTERGEN

InterGen are a UK based, independent generator who have developed and operated flexible gas assets for the last 25 years. InterGen's plants generate enough power to supply three million homes, representing around 5% of the UK's electricity demand. Our projects at Coryton, Rocksavage and Spalding have each received Capacity Market awards.

Overview

Ofgem should seek to define inherent market power

To get the most value out of industry engagement, Ofgem needs to first define the problem by demonstrating inherent market power and the extent to which it is costing the consumer so that interventions are proportionate. We note that ahead of its engaging with IOLC the ESO issued a balancing market review, without which the IOLC would not have been possible.

Protecting against inherent market power can be used in cases where market arrangements are being established in the absence of having any behaviour to observe. However, in this case where evidence is available, there is a risk that decisions are made in the abstract and not targeted towards consumer harm.

We would also question whether it is more prudent aligning any plans to reform TCLC with broader work to tackle constraint costs. Principally, we consider improving competition at constraints would have a better and more sustainable consumer outcome than an expansion to TCLC.

An expansion to TCLC must follow better data on constraints

In the draft guidance published on the same day as this consultation you note that [despite limited visibility of the ESO's rationale for accepting bids and offers], there is no requirement under TCLC that a generator must know that a constraint exists for the obligation to apply. This in and of itself is an inefficient regulatory outcome and, where the only regulatory tool to manage behaviour is penalty, the lack of information available around constraints points to market failure.

We would question whether improving the quality of information should not be the first point of call in seeking to reduce the costs of constraint actions. Improving the awareness of when a generator is operating in a constraint creates a clearer line to cross and we expect this will make generators less likely to cross it counter to the interests of consumers.

Further, some of the proposals, particularly an expansion of TCLC to BM offers may not be enforceable without better data on the existence of constraints. Compared to bids, there is very little transparency as to whether the ESO is likely to accept offers for energy or system reasons. Whilst we are not against Ofgem taking action in this area, it must be able to adequately and transparently disentangle actions that are taken for system reasons from those that are taken for energy volume purposes. Without clear information around what constitutes energy and system need, the condition would become difficult to enforce. In the absence of this clarity, taking a conservative approach that would capture offers that are responses to scarcity could risk security of supply as discussed in the next section.

Failure to value scarcity properly will hamper competition and put security of supply at risk

Under all of National Grid ESO's Future Energy Scenarios, modelling forecasts that thermal dispatchable generation is expected to remain at a 45GW capacity level until 2050. This is

equivalent to the entire current British thermal fleet. The sharp fall of prequalified new build plants in the CM expected from 2026¹ demonstrates that most if not all thermal assets will be needed to meet net zero without endangering security of supply.

Capacity market outturn in 2023 demonstrates the tight economics involved with running thermal assets. Bids into the CM will be based on the minimum costs required to turn the NPV of a project positive, and expected returns from scarcity revenue will invariably be included in this calculation. In 2016 Ofgem noted that energy products will reflect their scarcity² and therefore, any change to this policy would be unforeseen by those that hold CM contracts, or those intending to bid this year. With CM bids reaching close to the cap in recent years, and factors such as REMA adding a degree of uncertainty for investors, any change to the fundamental dynamics of the wholesale market creates a material risk for long term security of supply.

Removing scarcity value from the BM would push the value of scarcity towards the CM. It is our view that the balancing market provides the most efficient route for competition to allow stations to compete in the best interests of consumers in real time. We would invite Ofgem to present its economic analysis as to why they feel non-granular competition in the capacity market serves consumers interest better than in the BM.

Furthermore, removing scarcity from the balancing market will take volatility with it, therefore losing the investment case for battery storage. This could result in operators leaving the market with around 3 years before the Capacity Market would be able to bring new ones back.

Options proposed in the call for input

1. Expanding the TCLC to balancing services used by the ESO to manage constraints other than the BM

As mentioned above, in your draft guidance, you note that [despite limited visibility of the ESO's rationale for accepting bids and offers], there is no requirement under TCLC that a generator must know that a constraint exists for the obligation to apply. We agree with this statement to an extent as constraints tend to become established. For example the first known ROCOF event was during the August 2019 outage. By mid 2020, this constraint and the actions to manage it were well known to the market, and we still see action being taken today to manage this risk.

When a constraint 'establishes' itself, we do not see any reason for the ESO to be beholden to counterparties. The ESO should be forecasting system need and procuring the correct balancing services to rely on in the event a constraint manifests. Contracts that pay users for their availability and a fee for enacting services should they be required, would result in much lower costs for the consumers in our view.

As mentioned earlier in this response, taking action on behaviours with penalties represents the least efficient regulatory outcome and work to prevent these kind of situations arising as a 'prevention rather than cure' style solution would be better for consumers.

¹ <https://delta.lcp.com/news/does-the-capacity-market-have-a-liquidity-problem/>

² [scarcity_pricing_and_conduct_in_the_wholesale_energy_market.pdf \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/scarcity-pricing-and-conduct-in-the-wholesale-energy-market.pdf)

2. Expanding the TCLC to offers

Expanding TCLC to offers may be difficult to enforce without better data on the existence of constraints. Compared to bids, there is very little transparency as to whether the ESO is likely to accept offers for energy or system reasons.

Whilst we are not against Ofgem taking action in this area, it must be able to adequately and transparently disentangle actions that are taken for system reasons from those that are taken for energy volume purposes. Without clear information of what constitutes energy and system need, the condition would become difficult to enforce. In the absence of this clarity, taking a conservative approach that would capture offers that are responses to scarcity could risk security of supply.

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3. Expanding the TCLC to bids to import or offers to export

We don't have any comments on this proposal.

4. Replacing the requirements of the TCLC with an explicit cap on generators' prices or profits in constraint periods

We do not think a cap would be practical to implement. For this reason a similar proposal was discounted in the high balancing costs call for input in 2023. The range of inputs required around costs of turning down would make the intervention challenging to implement. The retail price cap, and size of the teams required within Ofgem to maintain it, demonstrates how labour intensive such a tool would be to use.

5. Extending the requirements of the TCLC to providers of balancing services other than licensed electricity generators

We are not necessarily against expanding requirements of TCLC to non-licensed generators, but are unable to say how much of a problem this is. We do question whether Ofgem has the vires to carry out this kind of intervention. It may be this could only be established through the BSC and as such would need to be raised by a BSC party.