

Domestic Market Management team  
Ofgem  
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1 February 2024

Dear Domestic Market Management team,

**Call for input: Transmission Constraint Licence Condition**

We welcome the opportunity to respond to your call for input on the Transmission Constraint Licence Condition (TCLC).

When considering the growing challenge of constraint costs, it is important to note that in an optimised or close to optimal transmission system, there will always be a level of constraint costs present. The level of constraint cost will reflect the development of transmission and generation available to users.

For any of the options presented, it is crucial to consider the potential impact they may have on the existing market. Our initial views on the five options are as follows.

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

We are not supportive of this option as this could hinder the development of new balancing services and associated balancing services markets that will be required to achieve net zero. Particularly in early-stage markets, it is crucial to have the right signals present that will encourage and drive the necessary investment. We note under point 2 below, the Government's original rationale for not including offer prices within the scope of TCLC; namely the desire to preserve investment signals that would ultimately be to the benefit of consumers. We think similar considerations apply here.

Furthermore, given that different balancing services are to some extent substitutable for each other, it seems likely that prices for new balancing services will be constrained by the BM (which in turn is subject to TCLC) and providers of new balancing services will be unlikely to have market power. To the extent that the providers of such balancing services do have market power, this may be a temporary position which can be addressed by stimulating new investment and sources of competition.

More generally, we think this option poses the risk of transitioning towards administered prices that are not conducive to efficient markets.

## Option 2 – Expanding the TCLC to offers

We do not support this option. The Government's original rationale for excluding offer prices from the scope of TCLC was that (in the absence of output manipulation) such price spikes may be a true reflection of scarcity generation, and hence a reasonable investment incentive. In other words, extending TCLC to cover offer prices would reduce the incentive to build new plant in import constrained areas. This would, in turn, tend to exacerbate the problem of import constraint costs in the longer-term by reducing the competitive pressure on generators in those areas which would ultimately lead to increased consumer costs<sup>1</sup>. We believe that this rationale still holds.

If Ofgem believes that additional restrictions should be placed on offer prices, we suggest this should more appropriately be captured within a revision to the IOLC.

## Option 3 – Expanding the TCLC to bids to import or offers to export

We oppose this proposal as the implementation would adversely impact the business case for battery energy storage systems (BESS). This appears contradictory to the current direction of travel where, in 2023, National Grid fast tracked up to 10GW of BESS connections<sup>2</sup>. We believe the focus should be on encouraging and maintaining a competitive market and avoiding the risk of potentially dampening market signals.

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

We do not believe that this would be an appropriate extension of TCLC. The associated administration and efficiency challenges with this option, both for Ofgem and licensees, are likely to be very significant. A key difficulty lies in accurately and reliably forecasting bid and offer caps in advance, especially when considering by generator class and at half-hourly increments. Additionally, this approach may be incompatible with certain categories of generators that are built by design to operate infrequently and warrant higher associated costs. In summary, we do not believe this is likely to result in a materially better outcome for consumers.

## Option 5 – Extending the requirements of the TCLC to providers of the BS other than licensed generators

We can see a potential case for considering extending the TCLC beyond licensed electricity generators that offer balancing services. However, the mechanism for extending TCLC requirements to non-licensed parties requires further consideration.

We would welcome further discussion on the options with Ofgem.

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<sup>1</sup> 'Government Response to the consultation on the Transmission Constraint Licence Condition (TCLC)', DECC, 16 July 2012, page 18, [DECC report \(publishing.service.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/131106/20231106_National_Grid_to_accelerate_up_to_20GW_of_grid_connections_across_its_transmission_and_distribution_networks.pdf)

<sup>2</sup> [20231106 National Grid to accelerate up to 20GW of grid connections across its transmission and distribution networks | National Grid Group](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/131106/20231106_National_Grid_to_accelerate_up_to_20GW_of_grid_connections_across_its_transmission_and_distribution_networks.pdf)

Yours sincerely,

A handwritten signature in blue ink that reads "Richard Sweet". The signature is written in a cursive, flowing style.

**Richard Sweet**  
Director of Regulatory Policy