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Call for input: Transmission Constraint Licence Condition

1 February 2024

Dear Sir/Madam,

Thank you for the opportunity to provide feedback to this Call for Input. Please see below Statkraft UK's response.

Lack of evidence defining the problem

Apart from some theoretical explanations of abuse of dominant position/excessive pricing, there is very little empirical evidence demonstrating a problem that needs to be solved. The increase in System Flagged Bids does not necessarily equate to market abuse. Moreover, the increase in constraint costs coincided with an unprecedented increase in commodity prices, most importantly gas. The same lack of evidence applies to the five proposed changes. Specifically:

- Non BM actions account for a small minority of total constraint balancing actions so it needs to be demonstrated that extending the scope of the TCLC is of value. Similarly, BM Offers only account for a small minority of actions and for voltage rather than thermal constraints at that
- No evidence is provided to substantiate that there are instances of an abuse of a dominant position applying to the importation of power
- The imposition of explicit price caps represents a fundamental change to the principles of the BM, yet no evidence is provided to show what problem this would solve. The complexity and resulting time required to administratively set and monitor the cap should not be underestimated
- No evidence is presented to suggest that non-licenced generation is of material concern

Our overriding concern with the proposals raised, particularly the more fundamental changes such as 3 (Expanding the TCLC to bids to import or offers to export) and 4 (Replacing the requirements of the TCLC with an explicit cap on generators' prices or profits in constraint

periods), are that these will materially impact past investment decisions which will damage investor confidence at a time where major investment is required to meet Net Zero targets.

Little scrutiny of ESO performance

We consider that Ofgem should focus some of its analysis on the performance of the ESO in its management of transmission constraints. We note the Call for Input does not mention anything about the efficacy of the ESO's re-dispatch performance. Ofgem should consider the continued industry criticism over 'skipping' rates in BM for example.

Lack of progress in developing new services and markets

The Call for Input mentions work to introduce new Balancing Services, but it must be understood that the development of new services relevant to the management of thermal constraints is very much in its infancy even though it is now 2024. On 18 January 2024, wider industry has only just been invited to participate in helping the ESO find solutions for thermal constraints. We consider that far greater urgency is required to develop the new markets and services relevant to thermal constraints. The ESO through its Pathfinders for Stability and Voltage services has already demonstrated that there is plenty of competition out there to meet the ESO's needs. It is important that the ESO begins to forward procure a proportion of its constraint management requirement rather than leave almost all measures close to real time where there is limited scope to impact the prices on offer.

Please get in touch if you would like to further discuss the issues raised in our response.

Yours faithfully,

Cem Suleyman, Commercial Lead - Grid Services, Statkraft