



Domestic Market Management Team
Ofgem

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Commercial Asset Optimisation

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Transmission Constraint Licence Condition – Call for Input

Dear Domestic Market Management Team,

RWE is a leading global energy player, with a 38 GW global generating capacity worldwide, and a clear target: to get to net zero by 2040. With its new strategy 'Growing Green' (announced in November 2021) RWE expects to invest €50 billion gross in its core business globally -an average of €5 billion gross each year for offshore and onshore wind, solar, batteries, flexible generation and hydrogen.

In the UK, RWE is one of the largest power producers, accounting for around 15% of all electricity generated across a portfolio of onshore wind, offshore wind, hydro, biomass and gas, amounting to over 10 GW pro rata (12 GW installed capacity) - enough to power over 10 million UK homes.

RWE is also one of the largest renewables generators in the UK, with a combined installed capacity of over 2.79 GW (pro rata) (4.8 GW installed capacity) across our onshore wind, offshore wind, hydro and biomass assets. In addition to its growing renewables portfolio, RWE operates around 7GW of modern and efficient gas-fired capacity in the UK, making us one of the largest providers of firm flexible generation, which is crucial for security of supply.

Overall, and including its committed investments in projects already under construction, RWE expects to invest up to £15 billion in new green technologies and infrastructure in the UK by 2030.

We welcome the opportunity to comment on the proposals for updates to the Transmission Constraint Licence Condition guidance ("the Consultation").

Our response is non-confidential.

As well as responding to the specific points in the Consultation, we would make the following broad points.

As a principle, we believe that any market intervention by the regulator should be limited and targeted at specific market failures if they arise and if they

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cannot be resolved by other measures. Further, such interventions as are necessary should not extend beyond the specific issue being addressed. These are principles aligned with Ofgem's duties as set out in the Electricity Act 1989.

In the context of the TCLC, therefore, we urge Ofgem to limit interventions to specific issues and to give weight to considerations of unintended consequences, including potential market distortions that may be introduced where interventions are not sufficiently targeted or insufficiently clear as to their interpretation.

Interventions such as those described in the call for input may result in a reduction in competition if different segments of the market operate under different restrictions, whether actual or perceived.

As an alternative to the regulatory changes described, we believe that there is much that can be done to improve and increase competition around resolving constraints through market improvements as well as technical solutions to widen participation. Technical solutions could include wider use of commercial intertrips and wider provision of 'Super SEL'. However, for such developments to be commercially viable, they need to be able to provide the producer with improved margins compared with the BM while reducing overall prices for consumers. Such an approach is likely to have far fewer negative consequences and will also provide a route towards managing a net-zero system. The proposal to include other contract forms within the scope of the TCLC is likely to stifle rather than to encourage commercial and technical innovation.

The evidence of rising constraint costs provided in the call for input (Figure 1) shows increasing costs driven primarily by increases in bid volume (in fact not rising as quickly as the bid volume for most of the period covered by the chart, therefore suggesting a reducing cost per MWh). This changes in the last years shown, but it should be recognised that 2021 and 2022 were greatly impacted by the energy crisis and the war in Ukraine which influenced trading behaviour and fuel costs. This should not be taken as evidence of an ongoing issue or that regulatory changes are necessary. With the more recent reduction in gas prices, we would expect to see a significant reduction in the cost per MWh associated with constraint management.

If there are any points in the attached on which further discussion would be helpful, please do not hesitate to get in touch.

Yours sincerely

Raoul Thulin
RWE Supply & Trading GmbH

Annex 1

Response to Call for Input

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

The TCLC already imposes tight controls on the pricing of bids in the Balancing Mechanism (BM) during periods of constraint. By market participants offering alternative services or contract forms, the ESO is able to assess the most efficient and economic way of dealing with a constraint. If alternative contract forms are accepted, then they offer better value than the BM and should therefore be encouraged rather than more tightly regulated.

There is no need to expand the TCLC to cover these alternatives and doing so is likely to result in a reduced willingness to offer such services, which would be to the detriment of consumers.

Intertrips would be particularly difficult to regulate since the consequences of a resulting trip may be severe and the arming fee is likely to reflect not only direct or expected costs but also some significant reluctance to increase the possibility of a trip from full load given the potential for extreme outcomes. Therefore, if a licence condition imposed tight restrictions on a generator's ability to price in risk and preference not to have an intertrip armed, then it is likely that commercial schemes may not be offered and existing contracts could be terminated. This would be to the clear detriment of consumers.

In order to encourage innovation in commercial and technical solutions, providers would need to see improved margins compared with the BM while at the same time providing better value for consumers. As stated above, the proposal to expand the TCLC to other balancing services could have detrimental effects on market based solutions.

Expanding the TCLC to offers

As was determined in the review of the TCLC in 2017, there are a variety of regulations in place relating to the pricing of offers. We are not aware of any evidence that the absence of inclusion in the TCLC has led to any particular issues that could not be addressed by other routes.

Additionally, generators that are required for voltage support face increasing competition from specialised equipment able to provide the required services and which will be increasingly required as the GB system transitions to net-zero operation. We also believe that more can be done through market developments to increase competition and widen participation.

As such, we do not support the extension of TCLC to offers on the basis that interventions should be kept to the minimum necessary in order to avoid market distortions.

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

It is clear from the documentation published with the consultation on the TCLC guidance that Ofgem does not seek to put parties that operate behind a constraint in a worse position than those not affected by the constraint. This is a principle with which we agree. It is important to recognise that where a constraint exists, bids and offers may still be taken for reasons other than resolving the constraint. As such, to the extent possible, parties should be able to price at a level that reflects the balance between supply and demand. Otherwise, parties operating behind a constraint will clearly be at a disadvantage compared with other market participants and market distortions will arise. If the ESO is incentivised to dispatch generators that are subject to price controls ahead of others, then this will impact the competitive operation of the system and the arising market distortions could have very detrimental impacts on a broad section of the market including DSR, storage and peaking plant.

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

We would expect to see an impact assessment and evidence of existing consumer harm prior to such a significant market intervention. Other regulatory routes such as REMIT or competition law already exist under which unlicensed market players may be regulated.