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Marta Csirinyi
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

28 February 2017

Dear Marta,

Re: Statutory consultation on a proposal to modify the standard conditions of all electricity generation licences

I write on behalf of Baglan Operations Limited, Sutton Bridge Generation and Severn Power Limited. These companies are part of the Calon Energy portfolio. We welcome the opportunity to contribute to the consultation and would like to confirm our support for ensuring a fair and transparent electricity market. However, we do not agree that the proposed licence modification represents the most appropriate way to prohibit exploitation of periods of transmission constraints. Our position is explained below.

Firstly, we do not believe that the wording of the licence condition is sufficiently well-defined. In particular, the use of the word "excessive" is inherently subjective unless explained with additional guidance. We believe clear definitions of key terms are necessary and not currently provided in the proposal.

Secondly, in our opinion, system constraints in practice are not adequately flagged and communicated. Therefore, it is not possible to commit to avoiding exploitation of a system constraint if it is not known about. Whilst deliberate action to exploit a constraint via excessive pricing should rightly be prohibited, potential inadvertent exploitation is a real issue. We believe that National Grid has not tagged all its actions where there appears to be a constraint. When actions are tagged, this can be seen after Gate Closure although Balancing Mechanism prices would have been submitted prior to this. We recommend that National Grid is required to indicate to specific plants ahead of Gate Closure when a constraint is in place so that the operators can understand the additional compliance risk they are facing.

Thirdly, we do not think that placing the requirement in the generation licence is appropriate given trading arrangements, especially given how these are developing in the light of increased regulation in the sector. For example, the Balancing Mechanism bids and offers of our plants are handled via a route to market services agreement. As an owner of the generation assets, we do not contractually have control on this pricing, commercial dispatch decision or wholesale market execution activity. The generation and trading activities in many businesses are managerially if not contractually separated. As exploitation of a constraint is essentially a trading decision we do see that the generation licence is the appropriate place to impose the requirement.

We welcome this consultation and hope that the points raised above explain why the proposal may not have the desired outcome. We would like to work with Ofgem to develop a proportionate and effective solution to the identified issue and hope that a meeting can be arranged to allow us to support this initiative further.

Yours sincerely

Andrew Mackintosh
Director of Governmental & Regulatory Affairs