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Marta Csirinyi
Wholesale Market Conduct
Ofgem
9 Millbank
London SW1P 3GE

6th March 2017

Dear Marta,

RE: Statutory consultation on the licence condition to prohibit potential abuse of transmission constraints by generators in the balancing mechanism

Thank you for the opportunity to respond to the consultation on making the Transmission Constraint Licence Condition (TCLC) a permanent measure. This is a non-confidential response, which represents the view of the Centrica group of companies, excluding Centrica Storage.

Centrica continues to believe that the TCLC has had a positive impact on constraint costs, in particular on the Scotland-England (B6) boundary. Since the implementation of the TCLC, there has been a continued reduction in the average bid prices submitted by generators, particularly from wind generation. In order to support sustained competitive pricing in the Balancing Mechanism, we support Ofgem's proposals to make the TCLC a permanent licence condition based on the current Condition 2. Our detailed position is as follows:

- The temporary nature of TCLC was predicated on GB Transmission Operators (TOs) completing all of their key infrastructure reinforcements to deal with the worst constrained areas, primarily Scotland. However, a number of key reinforcements e.g. Western High Voltage Direct Current (HVDC) link and the East Coast Upgrade remain to be commissioned and the latter is only forecasted for 2023. As such, transmission constraints that go beyond those that are economically justifiable as part of the usual cost benefit analysis between constraining generation and network investment are expected to remain in the foreseeable future. Given the timescales involved with this network investment, we believe it is now justified that the TCLC become a permanent licence condition.
- We agree with Ofgem that Circumstance 1 (i.e. gaining excessive benefits from economic and physical withholding) is covered by REMIT legislation and therefore it is right that it should not form part of the permanent licence condition. The behaviour described in Circumstance 2, on the other hand (i.e. obtaining an excessive benefit from bids they make to reduce output during periods of an export constraint), is much more specific to the Balancing Mechanism and not adequately covered by REMIT. It is therefore right that a permanent licence condition should focus on the behaviours covered by the current Circumstance 2.

- The wording of the proposed permanent TCLC and the associated guidance is generally robust. However, we are unclear of the meaning and intention of paragraph 3 (b) in the proposed licence condition (*For the purposes of paragraph 2 the reference to a reduction in generation by the licensee in a Transmission Constraint Period means... includes a reduction in generation of electricity by a particular generating plant, whether or not there is an overall reduction in electricity generation in that Transmission Constraint Period*). We do not understand the relevance of ‘*whether or not there is an overall reduction in electricity generation*’ and would welcome some further clarity, either through additional or amended text in the licence condition or guidance document.
- There would be no substantial additional costs as a consequence of the licence condition becoming permanent, and furthermore, the current ongoing costs associated with complying with this licence condition are limited. The costs are largely administrative, for example adapting compliance policy and processes (namely manuals, training and monitoring).
- We agree with Ofgem that it is important it regularly reviews whether there is a need for regulation, regardless of the area that it covers. Therefore, in the future, if it is considered that there was no longer a need for transmission constraints to be regulated in this way, we would support steps to revoke the licence condition, in line with the usual licence modification process.
- Whilst we accept there are practical challenges of applying TCLC to unlicensed generation, it is reasonable that all generators are regulated similarly at times of transmission constraint. We therefore support Ofgem in its continued engagement with BEIS on this issue and believe that it is an area that should be kept under review.

I hope you find these comments useful. Please do not hesitate to contact me (email: ricky.hill@centrica.com; Tel: 07789579169) should you have questions on any aspect of this response.

Yours sincerely,
Ricky Hill
Regulatory Manager
Centrica Energy