

Marta Csirinyi
Wholesale Market Conduct
Energy Systems
Ofgem,
9 Millbank,
SW1P 3GE

Cathy McClay
Head of Commercial, Electricity
Cathy.McClay@NationalGrid.com
Direct tel +44(0) 7870 159677

6 March 2017

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

Dear Marta

We welcome the opportunity to respond to your statutory consultation on the proposed licence condition to prohibit potential abuse of transmission constraints by generators.

We agree that the behaviour covered by Article 5 of the Regulation on Energy Market Integrity and Transparency (REMIT) should remove the requirement for Circumstance 1 however we would welcome further guidance on Article 5 confirming this and that Article 5 applies to activity in the Balancing Mechanism, bilateral contracts and Over The Counter trades to manage system constraints.

We believe that there should be amendments to the proposed licence to prohibit excessively high offer prices in the event of an import constraint. Import constraints are becoming increasingly active as the System Operator is required to buy on generation to manage system issues such as high voltage, inertia and Black Start.

Our detailed response to the consultation question(s) are given in the appendix.

Yours sincerely

By Email

Cathy McClay
National Grid

Do you agree with the proposed wording of the licence condition? Please include any reasoning and evidence in your answers.

The proposed licence condition does not prohibit excessively high offers during import constraints. In explanatory note 3 to paragraph 2.6 of the consultation document the rationale is given as follows:

[Import constraints] occur when, given the current demand and electricity generated within an area, there is insufficient transmission capacity to import the required amount of electricity. The rationale for excluding import constraints is 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 the financial year 2015/16 only 4% of constraint management spend on increasing generation was for an import constraint of this type. To date in the financial year 2016/17 the figure is 5%. The remaining constraint management spend on increasing generation was for other constraint types. It is therefore unlikely that price spikes in offers are a true reflection of scarcity generation and we propose that increases in generation should be treated in the same way as reductions in generation.

The stated aim of the proposed licence condition is to prohibit generators from paying or seeking to pay the system operator an excessively low amount, or being paid or seeking to be paid an excessive amount by the system operator. However the definition of “Relevant Arrangements” solely refers to the making of a bid or offer. The level of bid or offer made is only one factor determining the total amount the system operator will pay to or be paid by a generator. The other factor is the volume of actions the system operator is required to take. The proposed licence condition does not explicitly prohibit a generator from obtaining or seeking to obtain an excessive benefit through increasing the volume of actions the system operator is required to take. A generator could seek to achieve this through the adjustment of its Dynamic Parameters, for example by setting the Minimum Non-Zero Time artificially high. We propose that the inclusion of Dynamic Parameters in the definition of “Relevant Arrangements” would prohibit this.

The definition of “Relevant Arrangements” in the Licence Condition solely refers to the Balancing Mechanism. In the financial year 2015/16 19% of the total spend on constraint management was outside of the Balancing Mechanism. To date in the financial year 2016/17 that figure has risen to 24%. The spend outside of the Balancing Mechanism has been on other Balancing Services, such as Constraint Management Services contracts and Electricity Trades performed under Grid Trade Master Agreements, which the system operator uses to minimise the spend on constraint management. As a prudent and economic system operator we will continue to use services outside of the Balancing Mechanism at an increasing rate, both for reasons of prudent planning and economic saving. However these services are not covered by the proposed licence condition and therefore generators could seek to obtain an excessive benefit from them or seek to make those services economically unavailable. We propose that the definition of “Relevant Arrangements” is extended to include other Balancing Services used for constraint management.

As discussed above we suggest amending the licence condition to cover both reduction and increases in generation as follows:

2. For the purposes of paragraph 1, the licensee shall be considered to have obtained an excessive benefit from electricity generation in relation to a Transmission Constraint Period if:

(a) the licensee and the system operator enter into, or have entered into, Relevant Arrangements which related to a Transmission Constraint Period;
and

*(b) under the Relevant Arrangements and in connection with a reduction **or increase** in electricity generation in the Transmission Constraint Period, either:*

(i) the licensee pays, or seeks to pay, the system operator an excessively low amount; or

(ii) the licensee is paid, or seeks to be paid, an excessive amount by the system operator.

*3. For the purposes of paragraph 2 the reference to a reduction **or increase** in generation by the licensee in a Transmission Constraint Period means:*

*(a) a reduction **or increase** in comparison to the licensee's Notified Electricity Generation for that Transmission Constraint Period; and*

*(b) includes a reduction **or increase** in generation of electricity by a particular generating plant, whether or not there is an overall reduction **or increase** in electricity generation in that Transmission Constraint Period.*

As discussed above we suggest amending the definition of "Relevant Arrangements" in the Licence Condition as follows:

*"Relevant Arrangements" means arrangements entered into by the licensee and the system operator; within the Balancing Mechanism, **under a Grid Trade Master Agreement, within a Constraint Management Services contract, or other Balancing Services agreement**, and the entering of such arrangements shall include the making of a bid or offer **or offering of a trade or contract price and the submission of Dynamic Parameters** by the licensee whether or not that bid or offer **or offered trade or contract price** is accepted by the system operator;*

The definition of "Transmission Constraint" in the Licence Condition is incomplete. We would therefore suggest either amending the first paragraph of the definition as follows:

*"Transmission Constraint" means any limit on the ability of the National Electricity Transmission System, or any part of it, to transmit the power supplied onto the National Electricity Transmission System to the location where the demand for that power is situated, such limit arising as a result of any one or more of, **inter alia**:*

Or completing the definition of 'Transmission Constraint' with the inclusion of a further two constraint types:

(d) the need that any credible loss of generation infeed or demand offtake from the National Electricity Transmission System should not exceed the current maximum level for which the National Electricity Transmission System is secured;

(e) the need to ensure that any fault infeed current does not exceed the rating of any asset forming part of the National Electricity Transmission System