Centrica Plc
Millstream
Maidenhead Rd
Windsor
Berkshire SL4 5GD
www.centrica.com

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

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Dear Marta,

**RE: Centrica response to Ofgem consultation on the future of the Transmission Constraint Licence Condition**

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

Centrica believes that the TCLC has had a positive impact on constraint costs 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. On balance, we support extending the TCLC until 2019 for two main reasons:

1. The Scottish reinforcements are incomplete and the need for the TCLC will continue to exist beyond 2017. 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. A number of key reinforcements e.g. the East Coast Upgrade and the Western High Voltage Direct Current (HVDC) link, are unlikely to be fully commissioned before the TCLC expires in July 2017. In our opinion this justifies an extension to 2019.

2. REMIT does not cover adequately "Circumstance 2" within the TCLC. There are overlaps between the TCLC and REMIT but we believe TCLC is better for providing a specific mechanism to control excessive pricing in periods of transmission constraints. TCLC considers whether actions are "economically justifiable" whereas REMIT (Art. 2(2)(a)(ii)) has to prove that a price is at an artificial level.

We expand on this below in our answers your specific questions. 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

**Question 1: What are your views on the impact of TCLC on the behaviour of market participants?**

Since its introduction in 2012, the TCLC has been effective in deterring abusive market behaviour on the Scotland- England (B6) Boundary. In particular, bid prices for onshore wind generation reduced significantly at its introduction and subsequently, there has been a declining trend. For example, before TCLC, bid prices for onshore wind were frequently over £200/MWh but have typically reduced to around £60/MWh - £70/MWh.

**Question 2: What have been the costs for generators to comply with TCLC?**

The costs have been largely administrative, for example adapting compliance policy and processes (namely: manuals, training and monitoring).

**Question 3: What have been the benefits of TCLC?**

The main benefits have been lower transmission system balancing costs resulting in lower consumer energy bills. Network upgrades on and around this boundary have required line outages for reinforcement works and the TCLC has protected consumers during these periods from unnecessarily high costs from abuse of market power in the BM.

**Question 4: Should the scope of TCLC be widened to include licence exempt generators participating in the BM?**

In principle, it seems reasonable that all generators are regulated similarly at times of transmission constraint. However, there may be practical (and other) challenges of applying TCLC to unlicensed generation.

**Question 5: What are your views on extending TCLC until 2019 in its current form as allowed by current legislation?**

An economic and efficient transmission system is normally operated with a level of constraints - a trade-off between the costs of investment in electricity transmission assets and cost of constraints. However, there are a small number of transmission boundaries that are non-compliant - where constraints are a result of BETTA and /or the introduction of the “Connect and Manage” regime. The TCLC was established primarily as a temporary measure to deal with concerns over the abuse of market power whilst the GB TOs undertook the necessary network reinforcements, in particular on the England-Scotland Boundary.

Centrica now believes that there is a case for extending TCLC until 2019 as follows:

1. The Scottish reinforcements are incomplete and the need for a TCLC will continue to exist beyond 2017. The temporary nature of TCLC was predicated on the TOs completing all of their key infrastructure reinforcements to deal with the worst constrained areas, primarily Scotland. A number of key reinforcements e.g. the East Coast Upgrade and the Western High Voltage Direct Current (HVDC) link, is unlikely to be fully commissioned before TCLC expires in July 2017.

2. REMIT does not cover adequately “Circumstance 2” (prevent generators obtaining an excessive benefit from bids they make to reduce their output during periods of export constraint) within the TCLC. There are overlaps between the TCLC and REMIT but we believe TCLC is better for providing a specific mechanism to control excessive pricing in periods of transmission constraints. TCLC considers whether actions are “economically justifiable” whereas REMIT (Art. 2(2)(a)(ii)) has to prove that a price is at an artificial level.

**Question 6: What are your views on extending TCLC beyond 2019 with a further review after five years?**

At this time we do not see a need for TCLC to be extended beyond 2019. If TCLC was to become a more enduring feature we would expect to see a full consultation and Impact Assessment. Electricity networks (distribution and transmission) are evolving and system operation is becoming more challenging with issues that go beyond simple constraint management. Equally, Ofgem would need to consider whether enduring regulatory controls on wholesale market prices were appropriate if transmission constraints had been largely "built out" by 2019.

In addition, EU financial regulation is also changing; a potential review of REMIT may address the current issue with "Circumstance 2" in the future. (See question 10)

**Question 7: What are the risks and benefits of introducing an extension of TCLC?**

Evidence suggests that TCLC has been effective in deterring high cost BM actions on the Scotland- England (B6) Boundary. Given the likelihood that periods of transmission constraints will continue to exist beyond 2017, until the largely Scottish reinforcements are complete, an extension to TCLC to 2019 would continue to ensure a level playing field between licensed generators and ensure that the prices paid to manage transmission constraints are not excessive. This should ultimately benefit consumers.

Any further extension should be the consideration of a fuller consultation and a more holistic review. See Q6 above.

**Question 8: Do you have any concerns around TCLC you want to raise?**

No.

**Question 9: What are your views on the interactions between TCLC and REMIT Article 5?**

TCLC is designed specifically for two circumstances in its application to National Grid's BM, whilst REMIT deals with market conduct in wholesale gas and power markets. We see TCLC as a complimentary obligation to REMIT.

**Question 10: What are the risks and benefits of relying on REMIT to address the behaviours prohibited by TCLC, as compared to the risk and benefits of keeping the TCLC?**

REMIT focuses on general market conduct in wholesale gas and power markets. However, TCLC is designed specifically for two circumstances in its application to National Grid's Balancing Mechanism. Namely:

- Circumstance 1: preventing generators making uneconomic dispatch decisions that create or exacerbate a transmission constraint. This does have parallels with REMIT's definition of market manipulation in Article 2(2)(a)(i) and (ii)

- Circumstance 2: preventing generators obtaining an excessive benefit from bids they make to reduce their output during periods of an export constraint. The TCLC provides a specific mechanism to control excessive pricing in periods of transmission constraints – the threshold for TCLC is to decide whether actions are economically justifiable. This is different to REMIT as TCLC does not have to prove that a price is at an artificial level. [Article 2(2)(a)(ii) of REMIT]

Without the TCLC there is the potential that the behaviours it was designed to remove could return to the Balancing Market and subsequently lead to increased system costs. REMIT does not cover adequately "Circumstance 2" within the TCLC. There are overlaps between the TCLC and REMIT but we believe TCLC is better for providing a specific mechanism to control excessive pricing in periods of transmission constraints.