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Sent by email to: [WholesaleMarketPolicy@ofgem.gov.uk](mailto:WholesaleMarketPolicy@ofgem.gov.uk) and [TCLC@ofgem.gov.uk](mailto:TCLC@ofgem.gov.uk)

Dear Domestic Market Management team,

Dear Mr Reeve,

**Ofgem's Calls for Input on the Transmission Constraint Licence Condition and on the Transmission Constraint Licence Condition Guidance**

We appreciate the opportunity to contribute to Ofgem's Calls for Input on potential changes to the Transmission Constraint Licence Condition (TCLC) in the Generation Licence and on proposed updates to the TCLC Guidance. We have combined our comments to both consultations in one consultation response. This is a non-confidential response on behalf of Centrica plc.

As Ofgem observes, constraint management costs have grown considerably over the past decade. These costs are forecast to continue to grow, putting a significant cost burden on consumers. This is because renewable energy (RES) expansion has outpaced infrastructure development of the transmission network, dispatch inefficiencies in the Balancing Mechanism (BM) have limited incentives for market entry and the development of effective competition, and the ESO control room has not made optimal use of low-carbon flexible Distributed Energy Resources (DER), such as batteries, smaller generation units and demand response.

Over the past few years, the TCLC has been used to address several more obvious instances of improper market behaviour. However, in our view, the main reasons for higher costs of constraint management – in addition to the need for infrastructure development – have to do with the lack of competition in the BM and the need to enhance control room processes and capabilities to improve the dispatch of DER. We think that addressing these issues could have a greater impact on reducing BM costs than expanding the remit of the TCLC. In this respect, we would highlight the following:

- Facilitating the active participation of more market participants (enhanced competition) in the BM would help to keep market power in check.
- The Control Room does not have sufficient experience yet with the dispatch of batteries, smaller generation assets and demand response. Operators are more familiar with larger assets and therefore tend to 'skip' smaller assets in favour of larger assets with more well-known behaviour. This is evidenced by the high skip rates of batteries. The control room needs to improve its understanding of DER, update and enhance dispatch processes, and introduce more transparency in dispatch decisions. We appreciate the ongoing work by the ESO to address these issues and urge for prompter implementation of improvements.

- The dispatch process remains highly manual. Significant upgrades to the control room systems are required to support the efficient dispatch of smaller assets.
- The development and delivery of new markets for reactive power and stability would reduce the number of actions being taken through the BM where these services are currently accessed.

As a result of the lack of experience of the control room with DER and the need for upgrades to control room systems and processes, the participation of batteries and other flexible assets in the BM remains low and inefficient. This also undermines incentives for new entry. Improvements would strengthen competition among existing providers and attract new market participants. This would enhance system flexibility, reduce the carbon intensity of the BM and ultimately, reduce costs to consumers. The ongoing Balancing Programme and the Review of Electricity Market Arrangements (REMA), in our view, are the most appropriate avenues for introducing the required short and medium-term reforms.

We welcome the introduction of a new battery zone in the BM and the launch of the Open Balancing Platform supporting bulk dispatch of battery storage and small Balancing Mechanism Units, and we look forward to the ESO's analysis of the impact of these developments and to the introduction of further improvements at pace.

In addition, residential flexibility can already access the BM through limited routes and trials (e.g., the Power Responsive trials for operational metering, allowing demand-side response (DSR) to access the BM, and Ofgem's Sandbox derogation to allow non-half-hourly (NHH) metered assets to participate in the BM). The growth potential of residential flexibility in the BM could significantly increase competition and is likely to have a greater impact on prices than expansion of the TCLC. The ESO and Ofgem must press on with initiatives to widen BM access to aggregated flexibility from residential and micro-business consumers.

In addition to these comments, in the attached Annexes we provide more detailed feedback on the two consultation documents. Thank you for considering our views. We remain at your disposal, should you have any questions or comments regarding our response.

Yours faithfully,

Maria Popova  
Regulatory Affairs Manager  
Centrica

## **Annex I: Comments on the options for changes to the TCLC**

### **Option 1: Expanding the TCLC to balancing services used by the ESO to manage constraints other than the BM**

We do not see the need to expand the TCLC beyond the BM. The focus of the Condition should remain on bids by generators whose intended level of output for a particular generation unit causes or exacerbates a transmission constraint.

If Ofgem has particular concerns about Schedule 7A trades (e.g., how they are assessed by NGENSO against alternative actions and accepted on a price basis), such concerns could potentially be addressed by changing the assessment methodology or putting in place a trading platform for Schedule 7A trades to provide more visibility. Regarding intertrip services (or Constraint Management Pathfinders), those should be developed into a market to ensure best value for consumers. Reactive power and stability market programmes will also remove the need to use the BM to access these services, meaning that the potential for market participants to exploit offers to synchronise will be reduced.

### **Option 2: Expanding the TCLC to offers**

We do not think that the TCLC should be expanded to offers. To the extent that there may be a risk for a provider to benefit from market power in such circumstances, we think that this risk would be best addressed by expanding participation in the BM. Speeding up the development of new markets for inertia and voltage would also be helpful.

### **Option 3: Expanding the TCLC to bids to import or offers to export**

We do not think that the TCLC should be expanded to bids to import or offers to export.

We agree with the rationale for restricting the Condition to cases where a generator is – absent the bid – due to export power, i.e., where a licensee's intended level of output for a particular generation unit causes or exacerbates a transmission constraint. This ensures that the BM incentivises investment by providers that can offer services to help resolve a constraint.

Any potential risk of a provider benefitting from market power would be best addressed by strengthening competition in the BM.

### **Option 4: Replacing the requirements of the TCLC with an explicit cap on generators' prices or profits in constraint periods**

Replacing the TCLC requirement with an explicit cap on bids in the BM would be damaging, as it would dampen price signals, which would affect investment and competition. Setting the level of the cap would also be difficult and would need to involve regular reviews and potential adjustments to reflect changing market conditions, which would create uncertainty for market participants.

Energy prices should be allowed to reflect the true value of scarcity during times of system stress and high electricity demand; at the same time, when energy is in abundance, prices should also be allowed to reflect the value of displacing that generation, providing signals for storage operators. It is undistorted prices that can give an accurate signal for dispatch and for investment and divestment. Restricted bidding behaviour in the BM would distort price signals and bidding behaviour across the different timeframes, as all prices across the different wholesale market timeframes are related and reflect an expectation of future imbalance prices.

### **Option 5: Extending the requirements of the TCLC to providers of balancing services other than licensed electricity generators**

Improvements to the BM and ESO systems could increase the participation of small-scale aggregated DSR in the BM, and this could reduce the market power available to generators near constraints. It is

unlikely that small-scale aggregated DSR will reach a level where market power can be exercised in the short term, due to difficulties participating in the BM which need to be addressed. But if Ofgem is considering placing obligations on flexibility providers, then a review of the evolving landscape when developing the forthcoming flexibility provider licence, expected during 2025, may be appropriate.

## **Annex II: Comments on the proposed updates to the TCLC Guidance**

The proposed updates to the TCLC Guidance are broadly in line with our understanding of the requirements and we have not identified areas where the proposed updates are not clear or require additional detail. In principle, transparency around investigations and cases sanctioned under the TCLC helps, as it improves market participants' understanding of how Ofgem interprets the Condition and the meaning of 'excessive profits.'