

01st February 2024

To: Office of Gas and Electricity Markets, Ofgem
Attn: Graham Reeve – TCLC@ofgem.gov.uk

Re: Transmission Constraint Licence Condition Guidance Consultation – December 2023

West Burton Energy (WBE) owns the 1300MW West Burton B CCGT and 50MW Battery Energy Storage System assets in Nottinghamshire, UK. WBE is wholly owned by various funds managed by EIG Partners.

Q1. Are there additional areas of background that respondents would find it useful to have covered in the guidance?
No.

Q2. Are there areas where respondents consider that the guidance would benefit from additional detail on Ofgem's interpretation of or approach to the enforcement of the TCLC?

The comments on improving the visibility of constraints is welcome, however we do not believe this goes far enough and there should be an obligation to publish constraint information clearly, not expect parties to form a probabilistic view. Historically ESO would not have wanted to publish constraint information for fear of parties using this to their advantage, the TCLC prohibits this hence there is no justifiable reason for withholding such information.

Section 2.13 describes the assessment of the risks and costs that generators face, however it does not detail an understanding for broader market conditions. This language drives the market down a path where you end up with all generators pricing the same at all times regardless of the margins. We do not think this lends itself to a functioning market as prices should be adjusted to account for supply and demand and therefore allow sufficient volatility.

In section 2.19 there is guidance to prices set solely in the reference to other generators as being an “intrinsic risk” of breaching the TCLC. We find this wording to be overly constraining and does not properly account for scarcity pricing as well as restricting the competition of the Balancing Mechanism.

The ESO have a mandate to take the most cost-effective actions to balance the energy system, and as such aims to avoid skips and take the highest bid action in the merit order. For a thermal asset, the marginal cost of generation is lower for high efficiency units compared to low efficiency units. In a scenario where this guidance is interpreted as restricting generators to being priced within a set £/MWh range of the marginal generation cost to avoid such “intrinsic risk of breach”, low efficiency units will receive all extrinsic value which removes relevant competition and reduces the business case to invest in thermal efficiency improvements.

Furthermore, generators such as WBB use the Balancing Mechanism to provide as much flexibility as possible to the system operator and achieve extrinsic revenue as a result of providing this, this in turn allows for continued viable running of generation assets as well as the future investment and forms a fundamental element of business planning. In order for this to be effective, there is a requirement for the market to be competitive and dynamic by allowing generators to engage in a competitive market environment which offers the best benefit to consumers, not one which is overly constrictive.

It is our belief that the bid market should remain competitive and pricing in line with other comparable generators allows for the market to remain efficient and competitive.

Q3. Are there any areas where respondents consider that the proposed changes to the guidance are unclear?

No.

Q4. Are there any examples of material costs or benefits of curtailment that are missing from Table 1?

Costs - Capacity Market penalties and other local commercial contracts that a generator may be subject to penalties for if bids reduce generation below contractual obligations.

Q5. Are there circumstances which could objectively justify bid prices that would otherwise be excessive, which are not captured in the updated guidance?

During periods of operational constraints, such as commissioning, a unit may be wholly inflexible to deliver bids. BOA pairs must always be submitted and currently there is no mechanism to notify the system operator and the market of a lack of flexibility to be bid off during such constraints without extreme pricing.

Q6. Do respondents have any other comments on the proposed changes to the TCLC guidance?

Whilst we welcome the expanded guidance for the TCLC and understand the reason for the updates, we believe that in parts it becomes overly prescriptive and interferes with the natural competition of the liberalised GB market.

The updated guidance regularly refers to traders knowingly or suspecting a constraint to appear and suggests multiple avenues for suspecting such a constraint, with reference the Electricity Ten Year Statement as a supporting element for the quantification of expecting a constraint. We find this to be overly complex given this is published annually, covers several scenarios which the market has little insight into which scenario to follow, and the electricity market is intrinsically dynamic and volatile. Furthermore, the latest Ten Year Statement indicates that there will be constraints in up to 15 boundary zones impacting almost all generators in the UK at some point with flow limits not explicitly details. As a result, the guidance places an expectation that almost every generator must assume a constraint to occur at any minute of the day and the potential to be fined as a result.

WBE notes that Ofgem understands that the ESO faces practical challenges associated with publishing constraint data as actions are real time, but we feel there is a lack of similar understanding for generators and intraday traders. Without clear, accurate and granular information, it becomes fundamentally difficult to optimise a generation asset in real time. It would be beneficial if the ESO were able to publish more frequent and accurate datasets on constraints and for an identification of which BMUs are to be affected by such constraint.

WBE also notes Ofgem's explanation that system flagging in a real-time indicator to a generator of a system constraint, but BOA flagging is often inefficient and error ridden. These errors are often raised by parties in the weekly operational transparency forum, identifying where a bid has not been correctly identified as a T-flagged action and had an impact on system and market prices. Without further scrutiny and accuracy of this process on the ESO then we believe it to be unfair for generators to carry all the burden on interpretations of potential misinformation.

Your faithfully

Christopher Terry
West Burton Energy

By email
