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for energy consumers

TO:

**Electricity generation licensees
(in particular storage providers)
and other interested parties**

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Applicability of Transmission Constraint Licence Condition (TCLC) to electricity generation licensees that are importing power

This open letter discusses the scope of the TCLC (condition 20A of the generation licence) as it applies to generation licensees which – were they to have a bid accepted in the Balancing Mechanism (BM) during a transmission constraint period – would import power from the transmission system. It is of particular relevance to storage providers.¹

Background

The BM is a crucial part of the electricity system framework in Great Britain (GB), used by the Electricity System Operator (ESO) to ensure that supply and demand are balanced. In the BM 'bids' and 'offers' are collected from market participants, specifying the price at which those parties would be willing to decrease their output or consumption below (or increase it above) their expected level, as indicated through the Final Physical Notification (FPN) submitted by the party one hour prior to delivery. For each half-hourly settlement period, the ESO may accept sets of bids and offers, making payments to (or receiving payments from) different parties in exchange for them agreeing to alter their output or consumption in order to help meet system needs.

As well as accepting bids and offers to address any system-wide energy imbalance, the ESO also uses the BM to manage any local transmission constraints which may arise. These

¹ In October 2020 we published our final decision describing clarifications to the regulatory framework for electricity storage providers, ensuring that storage was subject to the same rules and regulations as other forms of generation. See: https://www.ofgem.gov.uk/system/files/docs/2020/10/storage_licensing_statcon_decision_cov_letter_final_for_wBSITE_0.pdf

are limitations in the transmission system's ability to reliably transmit power from where it is due to be generated to where the demand for that power is situated, and could occur as a result of factors such as the risk that the thermal rating of circuits is exceeded; the need to maintain voltage at the required levels; or the need to maintain dynamic stability.

Alongside actions it takes outside of the BM, the ESO will often accept bids and offers in order to help resolve these transmission constraints, and ensure that power flows on each part of the transmission system remain within the necessary bounds to ensure the security and quality of supply and safe operation.

Transmission constraints can lead to electricity generators in particular areas (eg in regions with large amounts of generation capacity relative to demand) or with particular characteristics (eg units which represent the largest in-feed in an area) holding a position of market power for a given settlement period, with the ESO having limited options other than reaching an agreement with the generator to curtail their output. If generators were free to take advantage of this market power in their agreements with the ESO, this could increase balancing costs, as well as incentivise further generation to locate in areas where its presence would serve to exacerbate transmission constraints.

To protect against this risk, the TCLC requires that licensed generators do not obtain an excessive benefit from electricity generation (in particular, a reduction in generation) in periods where a transmission constraint occurs.² A licensee would be considered to have obtained an excessive benefit if they were to submit excessively expensive bid prices to the ESO (ie bid prices which which would cause the licensee to be paid an excessively high amount to reduce their generation, or equivalently cause the licensee to pay the ESO an excessively low amount for that reduction).³ Importantly, such bids do not need to be accepted by the ESO for the licence condition to apply. A breach of the licence condition would occur if the bid price would have resulted in an excessive benefit *even if* the bid was not ultimately accepted, and so the benefit were not ultimately realised.⁴ We publish guidance alongside the licence condition, which provides further information on the TCLC and our approach to enforcement.⁵

The application of the TCLC to generators that are importing rather than exporting power

In recent years, increasing numbers of new generators have begun participating in the BM, including a number of storage providers. We expect this trend to continue. It has been put to us that there is some uncertainty amongst newer market participants about the

² Standard condition 20A.1 and 20A.2 of the Electricity Generation Licence (SLC20A.1 and SLC20A.2)

³ SLC20A.2

⁴ Ibid

⁵ https://www.ofgem.gov.uk/system/files/docs/2017/05/2017_tclc_guidance.pdf

application of the TCLC to generators in circumstances where they are taking power from, rather than adding it to, the transmission system.

The TCLC applies to any arrangements between a licensee and the ESO in the BM that involve a “*reduction in generation*”.⁶ This is defined in the licence condition as a reduction relative to the licensee’s notified level of generation, and means a reduction in generation of electricity by that particular generating plant, whether or not there is an overall reduction in generation in that period.⁷

Where a generator was not due to export any power to the transmission system in a given settlement period (ie it had submitted an FPN of zero), or was due to *import* power from the transmission system (ie had submitted an FPN with a negative value), then a bid in the BM to (further) import power would not constitute a “... *reduction in generation by the licensee in a Transmission Constraint Period*”. This is because the unit was not in any event due to generate. Therefore the TCLC *would not* apply to the relevant licensee’s bids in these circumstances.

In contrast, and for the avoidance of any doubt, in the event that the same licensee were intending to export in a settlement period (ie it had submitted an FPN greater than zero) and a transmission constraint were in effect, the TCLC *would* apply to that generator’s bid pricing.

A generator may submit multiple bids, specifying the prices at which it would be willing to reduce export / increase import for different levels of output. Where a licensee was intending to export in a settlement period and submitted multiple bids, only those bids which applied (in part or in full) to a reduction in generation would be subject to the TCLC.

These rules help to ensure that licensees are prevented from benefitting from market power which may arise as a result of a transmission constraint which their intended generation would serve to exacerbate; while at the same time ensuring that the BM can work to reward generators that are available to help to resolve a constraint.

Note on compliance with the TCLC

As the profile of electricity generation in GB has changed over time, both the number of actions taken by the ESO in order to resolve transmission constraints and the resulting costs have increased significantly. We expect this trend to continue, including in the coming

⁶ SLC20A.2b

⁷ SLC20A.3

summer which may see operability challenges arising from low demand similar to those observed in 2020.

In light of this, we would like to take this opportunity to remind generators of the importance of ensuring that their bid pricing is fully compliant with the TCLC. We will be closely monitoring generators' pricing over the coming months. If we find evidence that a licensee has acted in a way that is in breach of its obligations, we will take action accordingly.

Yours Faithfully

A handwritten signature in black ink, appearing to read 'Tom Corcut', is positioned above a faint, light-colored rectangular stamp or watermark.

Tom Corcut
Deputy Director, Wholesale Markets
Energy Systems Management and Security