

Text of letter from John Hayes MP, Minister of State at the Department of Energy and Climate Change to the Chief Executives of Energy UK, the Renewable Energy Association, Renewable UK and Scottish Renewables (October 2012).

Implementation of the Transmission Constraint Licence Condition

I am writing to let you know that the Government will be bringing into force the Transmission Constraint Licence Condition (TCLC) on 29th October 2012. I would be grateful if you could draw this to the attention of your members.

The TCLC is designed to make the balancing market fairer for all parties by preventing any undue exploitation of transmission constraints. We recognise that most constraint payments are reasonable, and provide legitimate compensation to generators for costs incurred in changing the amount of electricity they have planned and committed to provide to suppliers. There is no intention to discourage generators from offering these balancing services to National Grid or from making a reasonable profit from the services provided.

However the potential exists, in some cases, for generators to charge unduly high prices for constraint management services. These additional costs would increase the level and volatility of balancing charges for all users, and would ultimately fall on the consumer. I believe it is vital that *all* generators ensure they price these services responsibly. This will be all the more important over the coming years when we can expect the frequency of constraints to rise while significant upgrades to our electricity network take place at the same time as new generation is connecting to the system.

Ofgem is responsible for enforcement of the TCLC, and will be publishing guidance to assist generators in complying with this measure; this will be available at <http://www.ofgem.gov.uk/Markets/WhlMkts/CompandEff/Pages/CompandEff.aspx> I welcome Ofgem's stated intention to take a proactive approach to monitoring compliance, and I would strongly encourage all market participants to work constructively with Ofgem so that consumers can be confident about the fairness of constraint costs.