

Response from ENGIE

Background to ENGIE

ENGIE is a global energy player, focused on renewable energy and low carbon distributed energy infrastructures.

In the GB market, ENGIE owns First Hydro in a 75/25 J/V with Brookfield Renewables Partners. First Hydro comprises two pumped storage stations (Dinorwig 6 units, each 288MW of capacity and Ffestiniog (4 units each 90MW of capacity) both located in North Wales. Collectively they have the ability to store almost 12GWh of electricity. It also owns a gas storage facility - Storengy in Cheshire.

ENGIE owns a GB retail business supplying electricity and gas to I&C customers and is very active in the corporate PPA market supported by ownership of 60MW of onshore renewables.

Further, it is part of a J/V with EDPR which operates and develops offshore wind projects in Scotland.

General comments

- Ofgem's need for action as set out in the consultation is a combination of behaviours where a generator reduces a PN to zero at short notice (in the afternoon), has a long MZT which would mean the unit would be unavailable to generate over the evening peak alongside significantly increasing its BM offer price that would have to be paid to keep the unit generating.
- As drafted the IOLC goes beyond addressing the behaviour identified and will have wider impacts. ENGIE does not support this approach. The solution should be contained and targeted at the issue identified.
- ENGIE's assets will not be captured by the revised drafting of this licence condition. ENGIE therefore offers these comments with the aim of ensuring that the IOLC targets this behaviour and continues to allow the market to function and for all market participant to be able to price scarcity into their BM offers.

Response to consultation questions

1) Do you agree with our proposal to remove the ‘within the operational day’ requirement for submission of 0 MW PNs? Please provide reasons for your answer.

ENGIE does not agree that the IOLC should be extended to a day ahead submission of 0MW FPNs. We do not see the relevance of a 0MW FPN at the day ahead stage in the context of the problem identified – at day ahead, an MZT of greater than 60 minutes and a zero MW FPN does not limit the options for the ESO to balance the system.

The IOLC should also only apply when a previously positive FPN is reduced to zero (within day) otherwise it runs the risk of capturing generators with a zero FPN that do not wish to operate or have not established a forward contract position at the day ahead stage.

As drafted, a subset of generators would face a compliance risk if they responded to market signals and fully traded out of their forward contract position in order to capture better short term prices in the BM. Being price responsive is a sign of an efficient market. In drafting the IOLC, Ofgem seems to be associating two entirely separate things that shouldn’t be linked – one which forces the ESO to keep a generating unit on at what might be considered an excessive prices and the other a legitimate response to a market signal.

The issues that have led to the perceived need for this licence condition were largely because the ESO needed to procure reserve – not strictly to address scarcity. The day ahead balancing reserve product, once it is approved by Ofgem, will explicitly allow the ESO to procure this reserve. ENGIE believes that this new product will largely remove the problem that Ofgem is seeking to address. As with our previous consultation response, we question whether this licence condition is still needed.

2) Do you agree with our proposal to limit the scope of the condition to generators with an MZT greater than 60 mins? Please provide reasons for your answer.

This addresses the issue highlighted in the initial consultation whereby the IOLC would have captured storage who regularly change their PN to zero within day in response to market conditions.

3) Is the proposed licence condition drafting in Appendix 1 sufficiently clear? Are there any drafting edits or additions that you would encourage us to consider?

Please see our comments question 4 on how excessive benefit will be measured.

To address the proposal that the IOLC only be applied within day and only where a previously positive FPN is reduced to zero we suggest the following changes to the drafting:

b. the licensee has submitted reduced in respect of the same Balancing Mechanism Unit, a within day Physical Notification of to zero MW to the Electricity System Operator;

**4) Do you agree with our approach to considering excessive benefits, as set out in the draft guidance?
Are there any other factors we need to consider for inclusion in the supporting guidance**

ENGIE 's assets will not be subject to the IOLC as all the MZTs are less than 60 minutes. Whilst the IOLC is not intended to impact on scarcity pricing, we have concerns that it will due to fears that the circumstances and measurement period for when an excessive benefit will be determined have not be clearly defined and some factors that will be considered such as a definition of a reasonable profit are subjective.

How, for example will Ofgem measure whether or not there has been an excessive benefit? Will this be at a point in time or will this be over a period of time? As load factors for thermal generators start to decline, there will be less opportunities to recover fixed costs and make a reasonable profit and no certainty on when the next profitable running period will take place. Would Ofgem challenge an excessive benefit the first time it happened or after a reasonable profit had been made? How would any periods of losses that the generator was trying to make up for be taken into account? Conversely, if a generator has made higher than normal profits in one period would the IOLC be applied more harshly in a subsequent period? And how long would the period of measurement be?

It is worrying that in the accompanying guidance, Ofgem says that average GB wide offers are only useful indicators in assessing whether offer prices are comparable to others in the market and it would consider the cost and profit of the generator before looking at these factors. This implies a two tier market where some generators will not be challenged if they price to reflect scarcity and others would be wary of doing so.

It also isn't clear how a generator responding to the potential for a high cashout price and pricing at a similar level to mitigate the risk of imbalance cashout would be treated. An expectation that the cash out price could be high could be due to DFS being used or because the ESO has been accepting trades across the interconnector at high prices (for both of these the pricing does not have to be justified). A generator could also raise its offer price because other generators have had high prices offers accepted. How would the IOLC consider a pricing response to this 'first mover'? There should be equity of treatment for all generators who change their offer price in response to a cashout signal - this should be seen as a legitimate response to managing risk. The guidance and the assessment of excessive benefit should also allow for the consideration of cashout risk.

If Ofgem wishes to continue to progress IOLC, ENGIE recommends the following

- Ofgem revisits the proposed licence drafting to ensure that it targets the very specific behaviour seen in W-21;
- The IOLC should be limited to within day submission of a OMW FPN following on from a non-zero FPN (alongside an MZT > 60 mins);
- The guidance should allow all generators to price at the underlying market level; and

- Given the changing nature of the market, it is good practice for licence changes to have a sunset clause. Two year seems appropriate.

For further information, please contact:

Libby Glazebrook

Head of Regulation

ENGIE

Libby.glazebrook@engie.com

Tel 07970 767221