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April 2013

Dear Ms Fletcher

Electricity Balancing Significant Code Review

Eggborough Power Limited (EPL) is an independent generator which owns and operates Eggborough Power Station (EPS), a 2,000 MW coal-fired power station situated in the Aire Valley in North Yorkshire. EPS was previously owned and operated by British Energy (and latterly EDF) to provide flexible and reliable mid merit support to the "baseload" nuclear portfolio. EPL is now owned by substantial private shareholders and is operating as an essentially merchant power plant in the wholesale market.

For EPL, like other independent players, the current market changes and reviews are creating substantial regulatory risk. As plant nears the end of their asset lives investors need to make difficult decisions about future investment, as do plant developers. It is extremely difficult for investors to make those decisions while the market arrangements are in such a state of flux. It would therefore be unhelpful to progress further changes until such time as an identified requirement for change can be articulated.

EPL's greatest concern is that undertaking a wider EBSCR would distract Ofgem's resources and efforts away from what we believe is the most important market change Ofgem could make: improve liquidity. The work on this policy seems to have stalled and yet a liquid forward market is needed for a variety of other initiatives: setting reference prices for CfD FITs; allowing plant to manage capacity mechanism risk; helping manage balancing risk; and offering a robust curve against which investment decisions can be made by both old plant and new entrants. Please see our letter of 12 February on the actions EPL believes need to be undertaken quickly.

Ofgem recognises that investors want clarity, but a "high level vision" does not provide clarity, it instead creates risks. Banks cannot put into asset valuation models undefined changes that may come in 4 years for forward, or may not. Investors accept that the market will evolve, but want to be sure that the problem being addressed is clearly defined, the target end point is understood, and the change process is transparent, inclusive and proportionate. EPL does not feel that there is a clearly identified problem that a wide review of energy balancing will address. For example, EPL agrees that renewable generation is materially altering the way the market functions, but issues arising to date (bid

prices at wind farms) have been addressed, and few arguing for "special" treatment for renewable generators.

There are a number of points that Ofgem raise that EPL recognise need consideration, but without better understanding the policy detail and changes would be premature. For example, it would be best to judge if the EU Target Model requires changes to the GB market when the model is clearly defined. Likewise the capacity mechanism incentives cannot reasonably be considered until at least after the first auction occurs next year.

There are also a number of policies that would appear to already be subject to uncoordinated reviews. For example on DSR, the Government is running a pilot project, while Grid is looking at the way demand response works under the Grid Code, and DNOs are working to incentivise local demand response. On top of this, EPL assumes that suppliers are also now investigating innovative load management products using smart technologies. For Ofgem to then add in another review, potentially with a different product, risks leaving customers facing more choice in load reduction contracts than they have in supply contracts.

EPL supports Ofgem's view that investment and efficient operation are not properly incentives, nor do the tools for managing the risks of market integration exist. However, it is liquid markets that will create the most robust signals and best option for managing future power demands. The operation of plants in the short term, centralised balancing mechanism are extremely marginal in sending signals and will certainly not form a major part of our investors' decision making process. That is why EPL would urge Ofgem to finish work on liquidity before considering any further market reviews.

Instead of the EBSCR, EPL would propose that Ofgem creates a work stream (not as a SCR) around the related market issues to try and coordinate and steer much of the work that is already underway. EPL's priorities would be:

Liquidity – Ofgem should finish its remedy designs and start a timely implementation programme. This project must be delivered to facilitate the implementation of the EMR policies.

Dynamic parameters - Add dynamic parameters into the current SCR. Ofgem is aware of the concerns EPL has over dynamic parameters and a number of them have been being reviewed by various Grid Code Groups. Correct signalling of plant dynamics will improve the efficiency of balancing as well as security of supply. This may also go some way to address the way intermittent plants interacts with the market, though EPL is of the view that improved liquidity would be of greatest use to them in managing imbalance risks, as it would be for all players.

DSR – Ofgem/DECC provide a coordinated work stream that can look at the whole supply chain and consider what different products consumers could sell, to which counter-parties, and what is needed to make customers want to engage in load shedding. While EPL suspects that the market for DSR is relatively limited, the current work risks failing to deliver anything customers can or want to respond to.

EU Target Model and Codes – Ofgem should agree to hold an open meeting to discuss EU issues once the model is defined and EU Codes finalised. It is EPL's experience that until all of the rules are written down a coherent view of the model simply cannot be achieved, with the risk of later changes undoing any work started.

EPL has no direct interest in the gas market but notes that Ofgem's view, historically, has been that if the gas and power markets both act efficiently then there is no need to specifically coordinate them. Again it is not clear from

Ofgem's letter what a review of gas interactions is aiming to achieve. However, were Ofgem to look at gas EPL would want Ofgem to ensure it does not undermine electricity market competition by creating favourable treatment for gas generators over any other fuel sources. EPL does note that emergency arrangements in gas are under review and assume that Ofgem is explicitly considering the impact on gas fired power stations of that work.

EPL appreciates that Ofgem has a duty to protect the interests of customers. It is therefore vital that Ofgem focuses its efforts on improving liquidity as its number one priority as that will deliver the greatest benefit of all to customers, both today and in the future.

EPL is happy to discuss any of the issues raised in the letter with you or your colleagues if that would be helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read "Michelle Dixon". The signature is fluid and cursive, with a prominent flourish at the end.

Michelle Dixon
Commercial Director