Andreas Flamm
Wholesale Markets
Ofgem
9 Millbank
London
SW1P 3GE

22 October 2013

Dear Andreas,

Electricity Balancing Significant Code Review ("ESBCR"): Consultation on Draft Policy Decision

We welcome the opportunity to respond to the above consultation.

InterGen is owned by Ontario Teachers' Pension Fund (one of the world's largest pension fund investors in infrastructure projects) and China Huaneng Group (the world's second largest power generator). As one of the UK's largest independent generators, operating a portfolio of high efficiency gas-fired power stations (totalling 2,490MW; an investment of some £2.1bn in today's money), we actively trade in the prompt and forward wholesale power, carbon and gas markets. InterGen is **also** actively investing in the UK, our development projects include the new Spalding Energy Expansion and Gateway Energy Centre CCGT power stations which, if built, will create around 1,200 direct jobs during construction and long term skilled jobs thereafter.

InterGen strongly supports Ofgem's proposals with respect to reform of the current electricity balancing arrangements. Given that one of the key stated objectives of ESBCR is to incentivise an efficient level of security of supply, we are therefore somewhat surprised at the proposed implementation timeline and would encourage Ofgem to accelerate this process where practicable. We believe that these arrangements can, and should, be implemented by winter 2014/15 so that price signals for this period properly reflect forecast market scarcity.

InterGen would be happy to meet to discuss further any points raised in our response.

Yours sincerely,

SMiddleton

Stuart Middleton
Public Affairs and Regulation Manager

Question 1: Do you agree with our proposal to make cash-out prices more marginal?

InterGen agrees with Ofgem's proposals to make cash-out prices more marginal. Current cash-out prices do not provide adequate incentives for market participants to accurately match their contract positions with physical generation or demand. There is also likely to be a knock on effect that may improve forward market liquidity as market participants seek to hedge their exposure rather than rely on the day ahead or within day markets to balance.

In addition, we agree that due to the shortcomings of the current cash-out arrangements, the market does not sufficiently value flexibility and therefore there is little incentive for market participants to invest in flexible generation. In a low carbon system with increasing levels of intermittent generation, flexible capacity will become increasingly important for the security of supply and the correct price signals are required to support this aim.

Question 2: Do you agree with our rationale for going to PAR 1 rather than PAR 50? Are you concerned with potential flagging errors, and would you welcome introduction of a process to address them ex-post?

Yes. InterGen agrees with Ofgem's proposal to reduce PAR to 1MWh as opposed to 50MWh.

Moving to PAR 1 would ensure that cash-out prices provided accurate price signals. We believe that since the introduction of P217a in 2009 that there has been a reduction in flagging errors and that the System Operator is in the process of implementing new measures which would be required for future marginal pricing. We are concerned that Ofgem has not made it sufficiently clear what this may mean in terms of short term marginal pricing in its consultations and the settlement period extremes in pricing that may evolve in a capacity stress event. History has indicated that a move to marginal pricing is quickly followed by a political move to mitigate extreme price signals and therefore we are looking for a strong commitment to weathering the inevitable complaints from suppliers when the wholesale cash-out prices reflect the true cost of flexible generation.

Question 3: Do you agree with our proposals for pricing of voltage reduction and disconnections, including the staggered approach?

It would appear logical to include all actions by the system operator in response to a stress event in cash-out pricing so that alternatives are incentives. We therefore agree with the inclusion of these costs in the price setting calculations albeit transparency remains important and needs to be maintained.

Question 4: Do you agree with our assessment of the interactions with the CM and its impact on setting prices for Demand Side Control?

We agree that there are significant interactions between the CM and this cash-out review, but at this stage there is insufficient information to make decisions on Demand Side Control pricing. There is an immediate system need to address cash out signals and therefore we believe the changes can and should be introduced as soon as possible and implementation should not be directly linked to the CM proposed schedule.

Question 5: Do agree that payments of £5/hr of outage for the provision of involuntary DSR services to the SO should be made to non-half-hourly metered (NGG) consumers, and for £10/hr for NNH business consumers?

The obvious transparency and settlement issues this presents would suggest it is not an appropriate mechanism to support demand side reductions.

Question 6: Do you agree with the introduction of the Reserve Scarcity Pricing function and its high-level design?

We do not agree with the introduction of the Reserve Scarcity Pricing Function. Due to the STOR tender process being competitive, successful market participants will have had to make a decision on the revenue they are willing to receive, and therefore the price that they are willing to receive. It therefore seems unfair to provide these participants with a further uplift on this agreed price at a later date.

A key feature of STOR is the rapid response provided by market participants. Currently the SO appears to utilise STOR when it has access to cheaper, yet slightly slower capacity, which due to the failings of the SO's dispatch model, looks unavailable. There is a concern that in future, when market participants become aware that STOR plant has been dispatched this may lead to a rapid increase in short-term prices despite the system not being in distress.

Question 7: Do you agree with our rationale for a move to a single price, and in particular that it could make the system more efficient and help reduce balancing costs?

InterGen agrees with Ofgem's rationale for a move to a single price. We believe that the current spread between cash-out prices does not reflect the true costs of the actions taken by the SO to balance the net imbalance on the system.

A single cash-out price would therefore improve the cost-reflectivity of the balancing arrangements and would enhance the incentives for market participants to balance efficiently. This in turn should have a positive effect upon short term market liquidity.

Question 8: Do you have any other comments on this consultation, including on the considerations where we did not propose any changes?

We agree with Ofgem that it is important to keep a separation between trading accounts rather than allow parties to trade through a single account. This would be of particular benefit to the larger vertically integrated parties who currently have both production and consumption accounts as they would no longer be exposed to the spread between cash-out prices. We also agree with Ofgem that keeping separate trading accounts would help maintain the current levels of transparency and trading activity.

In addition, we also agree with Ofgem's proposal not to make any changes to Gate Closure. Whilst there are certainly some benefits in reducing Gate Closure, we believe that a shorter period between gate closure and real time may have a significant affect the SO's ability to balance the system in an optimal balance as it would reduce the number of stations available to the SO.