

National Grid's Proposed New Balancing Services: Ofgem's Draft Impact Assessment

GDF SUEZ Energy UK-Europe Response

(I) About GDF Suez Energy International

GDF SUEZ Energy International (formerly known as International Power) is responsible for GDF SUEZ's energy activities in 30 countries across five regions worldwide (Latin America; North America; South Asia, Middle East & Africa; UK-Europe, Asia-Pacific). Together with power generation, GDF SUEZ also active in closely linked businesses including downstream LNG, gas distribution, desalination and retail. GDF SUEZ Energy International has a strong presence in its markets with 77 GW gross capacity in operation and a significant programme of 8 GW gross capacity of projects under construction as at 31 December 2012.

As at 30 June 2013, the UK-Europe region (GDF SUEZ Energy UK-Europe) has 8.7 GW net ownership capacity in operation, which includes over 5.8 GW of plant in the UK market made up of a mixed portfolio of assets – coal, gas, CHP, wind, a large OCGT diesel plant, and the UK's foremost pumped storage facility. Several of these assets are owned and operated in partnership with Mitsui & Co. The generation assets represent just under 9% of the UK's installed capacity, making GDF SUEZ Energy UK-Europe (expressed as GDF SUEZ in our response below) the country's largest independent power producer. The company also has a retail supply business and a significant gas supply.

(II) Summary

- **GDF SUEZ believes that under the final proposals put forward by National Grid, SBR will not bring forward additional plant. It will simply procure a volume of plant from the existing market that will be held in reserve. As such we believe that there is little to be gained from allowing National Grid to tender for this service.**

(III) Response to the consultation

1. This response focuses on the need for Supplemental Balancing Reserve (SBR) rather than directly addressing the actual questions by Ofgem in its Impact Assessment.
2. National Grid has recognised that a robust method of identifying which plant is genuinely 'additional' in a fair and objective manner has proven elusive. As a result, National Grid has decided to adopt an 'Economics Prevail' approach to tendering - all plant will be allowed to participate in the SBR tender and the most economic tenders will be accepted to meet the SBR requirement.

3. National Grid's hypothesis is that *'only the most marginal plant, that which has just exited or is likely to exit the market, is likely to bid and be successful in the tender'* and that *'more efficient plant currently operating in the market... is likely to factor in its lost profit opportunity and therefore also be more expensive in the tender.'* National Grid goes on to say that *'accordingly, much of the plant that is likely to be successful in the tender is likely to be genuinely additional'.*
4. GDF SUEZ does not agree with this hypothesis. With sparkspreads currently close to zero or negative, existing plant should be able to tender at a lower price than mothballed plant as it will not face the costs of returning the plant to an operational state. Success in the tender will provide much needed financial support until wholesale prices improve. This service is therefore unlikely to create any additional generation on the system. National Grid recognises this point in saying that:

'it is possible that marginal plant that would have otherwise stayed in the market tenders for and is awarded an SBR contract, and therefore exits the market. If this happens, the market would tighten, potentially improving opportunities for other marginal plant either to stay in the market or to come back into the market if currently in a mothballed state'
5. The justification for needing SBR has been that the market is not responding to the forecast tightening of reserve margins by bringing plant that is currently mothballed back into service.
6. It seems inconsistent to hold the SBR tender, accept that existing plant may well be the beneficiaries and then rely on margins improving to attract the mothballed plant back into operation to maintain adequate reserve margins. If this is the case, it would be better to simply allow the market to respond to the natural scarcity signal rather than constructing one through market interference.
7. On the proposed design of SBR, there is an important issue relating to transmission access rights that needs to be addressed if the new balancing services are to be adopted. The proposal indicates that National Grid would give "free transmission" rights to those parties who are accepted but do not have TEC. It is questionable if National Grid has the power to grant such rights or if a generator is able to use any rights granted without putting the party in breach of the CUSC. A CUSC amendment is needed to address this.
8. Notwithstanding this issue, granting "free TEC" to parties simply increases the relative cost of transmission access for all other parties as the recipient of "free TEC" is not paying an appropriate share of the cost of transmission. GDF SUEZ believes that parties without TEC should use one of the existing products (LDTEC or STTEC) to purchase access rights for the duration of their use of the system.

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