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**Wholesale power market liquidity: statutory consultation on the 'Secure and Promote' licence condition**

Dear Graham, InterGen welcomes the opportunity to respond to the above consultation. A liquid and transparent wholesale market is essential to the success of EMR; to build a robust market reference price, encourage new build generation capacity and support independent generators and suppliers, whose participation will ensure that consumers benefit from highly competitive and efficient energy markets.

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

Yours sincerely,

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## 1 Executive Summary

- 1.1 InterGen has been an integral part of the UK generation fleet since 1998 and currently has 2.5GW of capacity in operation. We are committed to investing in the UK and are planning to add 1.8GW of carbon capture ready gas-fired generation (CCGTs) during this decade, reducing the UK's carbon emissions significantly and providing essential generation flexibility.
- 1.2 A liquid and transparent wholesale market is essential to the success of EMR; to build a robust market reference price, encourage new build generation capacity and support independent generators and suppliers, whose participation will ensure that consumers benefit from highly competitive and efficient energy markets.
- 1.3 However, wholesale market liquidity has decreased over the last few years to the extent that regulatory intervention is now required. InterGen would urge Ofgem to ensure that these proposals are implemented in accordance with the timescales stated in the consultation in order to deliver a real and sustained improvement in market access and market liquidity.
- 1.4 Improved long-term market liquidity not only allows independent generators to trade more efficiently but has the ultimate result of bringing down costs for all participants and therefore the consumer due to increased competition in generation and supply.
- 1.5 InterGen believes that in order to generate robust reference prices along the curve and increase the availability of products that support hedging, the implementation of a Market Making Obligation (MMO) is required. InterGen continues to believe that the near term market is operating efficiently and does not require intervention at this time
- 1.6 The MMO combined with the Supplier Market Access Rules (SMA) will allow independent generators and small suppliers to access forward products essential for hedging and risk mitigation. The MMO, now to include trading windows, will also create a robust and reliable reference price, essential for the success of the CfD FIT for low carbon generation.

## 2 About InterGen

- 2.1 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).
- 2.2 InterGen is 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) and actively trades in the prompt and forward wholesale power, carbon and gas markets.
- 2.3 InterGen requires a liquid forward wholesale power market to be able to hedge our existing assets effectively. Currently, the traded profile required is only available in the prompt market which leads to cash flow volatility and uncertainty for our shareholders thereby discouraging them from longer term investments in our existing assets and new development projects.
- 2.4 These development projects include the new Spalding Energy Expansion and Gateway Energy Centre CCGT power stations which, if built, will create around 3,000 direct jobs during construction and long term skilled jobs thereafter.

## 3 Questions

**Question 1: Do you consider that the proposed licence modifications appropriately reflect the policy proposals as described in this chapter?**

3.1 InterGen agrees that there has been progress towards Ofgem's objectives and that the proposed licence modifications do reflect the policy proposals.

3.2 In their final proposals, Ofgem states three liquidity objectives and InterGen agrees that these should be the focus of the obligations and help to determine the measures of success.

### 3.3 Objective 1: Availability of products that support hedging

3.3.1 For an independent generator, the availability of products has continued to decline over several years. In particular, it is very difficult to hedge peaks beyond the front month or season and, for baseload, only the front two months and seasons trade with any regularity. This inability to hedge has led to volatile cash flows and low price visibility, hindering further investment as a consequence.

3.3.2 As the percentage of renewables increases in the market, baseload products become less effective as a hedging tool for independent CCGT generators and it is essential that peak products are more readily accessible.

3.3.3 InterGen welcomes the introduction of the reloading rule and believes 5 minutes to be a sufficient time period.

3.3.4 InterGen believes that the final policy design will increase the availability of products and the ability to hedge.

### 3.4 Objective 2: Robust reference prices along the curve

3.4.1 InterGen previously agreed with Ofgem that the bid-offer spread gave an indication of price robustness, but always believing that actual trades provided a better measure. Another point made was that forcing trades to occur may distort the market price and that if spreads are sufficiently tight, trading will naturally occur within those spreads. Clearly for an improvement in liquidity to occur, spreads will need to be tighter than are currently observed in the market and the view is not held that the market spread will be narrower than that posted by any individual market maker.

3.4.2 Concentrating the spreads into 'trading windows' is more conducive to determining an accurate reference price as the volume weighted average price of trades across the windows will be easy to report against and less open to gaming and this is a welcome introduction.

## 3.5 Objective 3: Effective near-term market

- 3.5.1 InterGen has always found the near term markets to be sufficiently liquid, and acknowledges that the introduction of the auction has improved access for those players wishing to trade a half hourly Day Ahead (DA) shape (though that does not suit all participants). We believe that the prompt market has and continues to operate effectively and does not require intervention.

## 4 Further Information

- 4.1 InterGen supports the timescales set out in the consultation and would urge these timescales to be adhered to.
- 4.2 InterGen agrees that obligation should be placed on those parties who are large enough to provide additional liquidity. In the case of the MMO, we believe that it is correctly directed at those parties that are, as a result of their position in the market, required to purchase for their customers as well as sell from their generation.
- 4.3 InterGen believes that the inclusion guideline should be more detailed. If a company could become included as a result of growth this could have a significant impact on investment decisions therefore when making an investment decision a party needs to be fully aware of what additional responsibilities may be incurred in the current market.

