

Ofgem consultation- Pricing benchmarks in gas and electricity markets - a call for evidence

Submission by GDF SUEZ Energy International

(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, we are 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.

The UK-Europe region (GDF SUEZ Energy UK-Europe) has 8.6 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 the country's largest independent power producer. The company also has a retail supply business and a significant gas supply business in the UK, both serving the Industrial and Commercial sector.

(II) Summary key points

- **We support Ofgem's efforts to try to ensure that Pricing Benchmarks are robust and to try to minimise the risk of potential manipulation.**
- **We are comfortable with the accuracy and robustness of the published price benchmarks that are being produced but also support any efforts made to improve this further.**
- **Currently if the commodity levels have moved between the times of the electricity, gas and carbon assessments then the implied Clean Spark Spread is meaningless. It would be helpful if Price Reporting Agencies increased the coordination of when they publish their price assessments.**

(III) Response to consultation questions

Question1: Do you agree with our assessment of the issues?

1. GDF SUEZ does agree with Ofgem's assessment of the issues. We feel they have been summarised concisely in the Call for Evidence document. We support Ofgem's efforts to try to ensure that Pricing Benchmarks are robust and to try to minimise the risk of potential manipulation.
2. We feel that an area that has not been given sufficient focus in the Call for Evidence is the question regarding industry views on the preferred methodology to be used when creating a Price Benchmark. We view the key questions as follows:

- Should the methodology for creating pricing benchmarks be designed with focus on minimising the risk of manipulation or should we rely on laws preventing manipulation?

Our view is that methodologies should focus on ensuring pricing benchmarks are accurate reflections of the market and rely on legal means to prevent manipulation.

- Is it preferable to use a purely mechanistic approach to setting pricing benchmarks (i.e. volume weighted average of trades in a window) or an approach which utilises the judgement of an independent expert (i.e. the PRAs)?

We view the sense check that can be applied by an independent expert as a positive and so would prefer the current approach used by PRAs over a purely mechanistic approach.

- Is it preferable to have an approach which assesses the average price within a window, the "closing price" at whichever point in the trading day market liquidity dries up or price at a single defined point in time on each trading day?

We would be comfortable with any of these options but feel it would be of benefit to coordinate when price assessments are made across energy markets to enable these prices to be used to imply market spreads between energy commodities.

3. Whilst we have indicated our preference, we do not have very strong view on these questions but feel that the industry does need to debate what the most appropriate methodology is for our markets.

Question 2: What is your company's policy on providing information to price reporters or other price benchmarking services?

4. The policy adopted by GDF SUEZ UK Trading and communicated to our Traders is as follows:
- Traders can provide price data on UK Power Market to PRAs (i.e. ICIS Heren, Argus, Platts). They quote only actual bids/offers on the screen or actual trades with no interpretation or view on fair value.
 - Since we are a smaller player without full visibility of all trading arenas (i.e. we do not trade the ICE Physical Gas product on the ICE exchange), traders do not provide any price data on the UK Gas Market. Data should also not be provided on any other commodity markets.
 - Traders do not provide any market commentary to any journalist. If the journalist asks for any comment on how the market has moved in the day or views on potential price, the trader is instructed to say that they are not in position to provide this information.
 - If any journalist pushes for any statement then they are passed onto the External Communications Manager.

Question 3: In what ways do you use benchmark prices provided by price reporting agencies or other price benchmarking services?

5. We use benchmark prices in three primary ways.
- Forward Curve Creation – Price benchmarks provided by Price Reporting Agencies are used to create our internal forward curves for the various commodities where we have price exposures. For Power and Gas, the closing prices for the various forward products are inputted into a model which applies shaping to the prices to create a Half Hourly (Power) and Daily (Gas) forward curve. These curves are then used to mark our position, to forecast future asset dispatch, to monitor forward spreads and to forecast financial performance of our assets.
 - Structured Wholesale Contracts – We have entered into structured contracts that define a mechanism under which we will sell power and gas for future delivery periods. Under these contracts, certain published price benchmarks are used within an agreed to formula to calculate the price at which wholesale power and gas will be sold.
 - Structured Retail Contracts – We have a number of retail power and gas contracts where the price that the end customer pays is set by the published price benchmarks.

6. Any price issues therefore impact customers directly.

Question 4: Do you use a single price provider only, or a combination or variety of prices?

7. We do receive prices from a number of providers but our internal processes tend to use prices published by a single service provider.

Question 5: What are your views on the terms of the IPRO code of conduct and the various published methodologies of the price reporting services with particular reference to gas and electricity markets?

8. We have not conducted a detailed review of the terms of the IPRO code of conduct or the published methodologies of the price reporting services. We are comfortable with accuracy and robustness of the published price benchmarks that are being produced but also support any efforts made to improve this further.

Question 6: In the context of GB gas and electricity markets, do you consider the current arrangements whereby price reporting agencies operate under a self-regulatory regime are fit for purpose?

9. Yes. We believe that there is sufficient commercial pressure due to competition between PRAs to ensure that they are all incentivised to maintain robust business processes and publish consistently accurate price benchmarks.

Question 7: Are there any other issues that you wish to raise in the context of this call for evidence?

10. An issue that we would like to raise is the issue of the timing of price assessments. For our generation business the key exposures are to spreads between commodities rather than individual commodity prices. Therefore, when using price assessments between markets we need to take care to consider any misalignment between when the price assessment was made. For example, the Day Ahead Power price assessment may be made at 10:30 prior to the Day Ahead Auction but the Day Ahead Gas price assessment may be made at the 16:00 at the end of the trading day and the Carbon Price set at exchange closing price at 17:00. If the commodity levels have moved between the times of the assessments then the implied Clean Spark Spread will be meaningless. We would therefore like to encourage PRAs to increase their coordination of when they publish their price assessments.

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