



Minded to decision and draft Impact Assessment of industry's proposals (CMP264 and CMP265) to change electricity transmission charging arrangements for Embedded Generators

Energy Security Team
Department for Business, Energy & Industrial Strategy
3rd Floor Area E
3 Whitehall Place
London, SW1A 2AW

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Dear Sirs

Background

InterGen welcomes the opportunity to respond to this consultation. We remain the only genuinely independent generator active in the UK market with a track record of developing, constructing and operating large scale thermal power generation projects. We have been active in the market since the 1990s and therefore bring a unique perspective to this consultation. InterGen is owned by two major international investors, representing two key classes of investment which the Government is seeking to attract to UK infrastructure investment, namely, pension funds (Ontario Teachers' Pension Plan) and strategic investors from the People's Republic of China (China Huaneng/Yudean).

InterGen is one of the UK's largest independent generators, operating a portfolio of three flexible gas-fired power stations totalling 2,490MW; an investment of some £2.1bn. These stations are located at Rocksavage (Cheshire), Spalding (Lincolnshire) and Coryton (Essex).

In December 2016, at the T-4 auction, InterGen won a fifteen-year capacity market agreement to construct a 300MW OCGT, an expansion of the existing Spalding site. InterGen is also ready to build new H-class CCGT projects at sites in Spalding (Spalding Energy Expansion) and Essex (Gateway Energy). The new CCGT stations, which are "shovel-ready", will cost around £800million to construct and create around 3,000 jobs over their three year build programmes.

Putting closure of unabated coal in effect

1. Do you agree with our problem definition and that the Transmission Network Use of System (TNUoS) Demand Residual (TDR) payments to sub-100MW Embedded Generation ("smaller EG") are distorting dispatch, wholesale price, the capacity market (CM) and that they pose an increased cost to consumers?

Yes. InterGen has for the last eighteen months been expressing our concern at the disproportionate level of benefits afforded to embedded generation and ultimately the threat to security of supply large volumes of sub-100MW distribution connected capacity poses.

2. Do you agree that rising TDR payments to smaller EG is a problem which needs to be addressed?

Yes. TDR payments rising from an average of £45/kW to £72/kW in 2021 is disproportionately high and implies that further TNUoS costs are being avoided by suppliers making the burden even greater for those that are not capable of reducing their usage.

Furthermore, from InterGen's perspective, the biggest distortion occurs within the parameters of the UK Capacity Market. This mechanism is arguably the most important for delivery of government objectives across all aspects of the trilemma; security of supply, facilitating a low-carbon energy network and containing costs to the consumer. The current value of the TDR payment, without the further revenue streams included, is double the value of the highest capacity market clearing price (namely the £22.50/kW/year achieved at the 2016 T-4 auction) which puts into perspective the scale of the value that TDR payments currently provide to EG. With a revenue stream of this [increasing] value then it will always bid lower than clean, flexible, larger transmission connection plant.

This is a clear market distortion and not a level playing field.

Small embedded generation has enjoyed much success in the capacity market auctions held to date. Approximately 1.3GW of new embedded reciprocating engines cleared the 2016 T-4 auction; this was in spite of the Regulator writing to all developers of these assets in the week preceding the auction stating that previous lucrative revenue streams could not be relied upon in the future. This embedded capacity will seldom run and will therefore offer no benefit to the consumer in adding competition to the wholesale market. These engines do not support the government's carbon reduction commitments with a significant number running from diesel fuel and free of emissions controls as they are sub 20MW.

3. Do you agree with our interpretation of the applicable CUSC objectives?

InterGen does agree with the Regulator's interpretations of the applicable CUSC objectives.

4. Do you agree with our assessment against the applicable CUSC objectives and statutory duties? Please provide evidence for any differing views.

InterGen largely agrees with the regulator's assessment against the applicable CUSC objectives but would challenge the assumptions made in point 4.30. We do not agree there is a risk to security of supply were TDR payments reduced to zero with immediate effect from 1st April 2018. The system is well supplied for 2017/18.

The proposed tapering off of embedded benefits is a compromise. There is a clear market distortion that has been identified, the correction of which should not be unduly delayed. We would strongly oppose any deviation from the minded-to approach unless it would be to correct the defect with immediate effect.

5. In our assessment against the objectives, do you believe there are any relevant assessments we have not taken into account?

No, the assessment list is comprehensive.

6. Do you agree with our assessment that, in this instance, grandfathering as set out in the WACMs would be unlikely to best facilitate the CUSC objectives when compared to the other options available to us?

Yes we agree that grandfathering would not best facilitate the CUSC objectives.

7. Do you agree with our assessment that the value of the avoided GSP investment cost best facilitates the applicable CUSC objectives?

InterGen does agree with the assessment that the GSP investment cost saved by embedded generation is appropriate and does best fulfil the CUSC objectives identified.

8. Do you agree with our assessment of the impacts on security of supply? Please provide evidence for provided views.

InterGen agrees with the assessment but wishes to highlight the statement on p49, 4.84 *"The T-4 and T-1 CM auctions ensure there is sufficient capacity on the system to meet the government's reliability standard."* In light of this we would like to encourage the regulator to refer back to our response to question 4 where we believe there is no security of supply concern, were TDR payments to be floored to zero immediately, for this very reason.

9. Please provide evidence to show if there are other cost savings which small EG drive in comparison to larger (over 100MW) EG on the distribution system.

N/A

10. Is there other evidence that payment above avoided GSP/generation residual would better facilitate the applicable objectives?

N/A

11. Do you believe you have a legitimate expectation or contractual right for the continuation of TDR payments? If so, please provide evidence.

N/A

12. Do you agree with our assessment of the distributional issues?

N/A

13. Are there any sectors that we may have overlooked?

N/A

14. Do you agree with our modelling approach?

Yes, InterGen does agree.

15. Do you think that our background assumptions and using FES data is an appropriate approximation for status quo?

Yes, using FES data provides continuity with a number of other reports and methodologies, including National Grid's electricity capacity report.

16. Where WACMs are not modelled directly, do you think our assessment is appropriate (see appendix 8 for detail)?

Yes, we agree.

17. Of the options available to us, do you agree that WACM4 best facilitates the applicable CUSC objectives?

InterGen would support implementation of WACM 3 – this offers the largest consumer saving and, as discussed previously, offers immediate action whilst not compromising security of supply nor competition.

18. Do you believe that an implementation date of April 2018 best facilitates the applicable CUSC objectives?

Yes, we agree.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lisa Mackay', with a stylized flourish at the end.

Lisa Mackay
Director of Trading & Commercial
InterGen UK