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Michael Wagner
Deputy Director, Wholesale Markets
Ofgem
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Dear Michael,

InterGen (UK) Ltd's (InterGen) Response to Ofgem's Open Letter on the Five Year Review of the Capacity Market Rules and NGET's incentives

InterGen remains one of the only genuinely independent generators active in the GB market with a track record of developing, constructing and operating large scale thermal power generation projects. Furthermore, we have been active in the market since the 1990s. Given the aforementioned, we therefore bring a unique perspective to issues regarding the GB wholesale electricity market.

InterGen is an active participant in the Capacity Market (CM) Auctions. In the T-4 CM Auctions to date we have been successful in securing one-year agreements for our existing CCGT plants – Coryton, Spalding and Rocksavage. Additionally, in December 2016, InterGen won a fifteen-year agreement to construct a 300MW OCGT, an expansion of the existing Spalding site.

In our response to BEIS' Capacity Market and Emissions Performance Standard Review Call for Evidence we highlighted the importance of the CM as a source of revenue to generators, that is, in part solving the "missing money" issue, and that the CM is fundamentally needed in the future. However, the CM in its current form is too blunt an instrument given market evolution as it rewards capacity without due consideration to other key and growing concerns, such as whole system impact. We believe that the five-year review is the ideal opportunity to take stock and modify the existing capacity mechanism, including governance structure, the prequalification process and participation of different technologies, such that it is more fit-for-purpose.

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Capacity Market Rules Objectives

Whilst we believe that the Rules objectives remain appropriate we do not believe that the Rules are currently meeting these objectives. We would encourage Ofgem to focus its review on simplifying the Rules to lessen the burden on participants.

The prequalification process is particularly tortuous and unwieldy. The Y/N decision, since after the date for applying for prequalification the current system disallows any new information being submitted, essentially gives participant one chance only to complete and submit the required prequalification information in a format approved by the Delivery Body. Together with unclear rules and guidelines, for example not one formal consolidated version of the Rules nor the Regulations, which leaves participants to trawl through all previous versions and amendments, and its significance in terms of revenue, this is putting a momentous amount of pressure and stress on participants.

Whilst appeal is available this is late in the day. As such, we believe that there should be a period immediately after applying for prequalification when the Delivery Body can ask further questions, and after this can apply a Y/N decision (followed by potential appeal). This should avoid needless time and anxiety over administrative or clerical oversights.

Should there be no changes at all to the prequalification information from one year to the next, either for existing or new projects, then a letter of declaration from a company director should suffice to state that the asset wishes to pre-qualify on the same terms as the previous year. This would eliminate needless administration on all sides.

If changes have taken place, these should be highlighted by exception – rather like filling in the Self-Assessment for Tax, the applicant could go directly to the pages affected rather than revisit the entire application.

Another improvement would be allow National Grid to process and fully approve submissions anytime during the submission window (on the basis that once approved the details cannot be amended). This would encourage participants to complete applications earlier and reduce the spikey nature of National Grid's prequalification workload.

Capacity Market Rules change process

We appreciate the opportunity to engage in an annual Rules change process and we encourage Ofgem to explore how the process can be made more efficient. The process today is burdensome for the Regulator and industry alike, the review should therefore aim to improve the process from when a proposal is made all the way through to implementation.

We urge Ofgem to be conscious of all the various CM participants when reviewing the Rules change process. Due to resource availability and market experience, larger players and market participants will receive an advantage over smaller players if the industry is given greater responsibility in assessing the value of proposed amendments. This may reduce

competition and possibly reduce access the CM for the many and increase it for a few dominant incumbents.

Moreover, whilst this largely sit within BEIS' review, we believe that the change process will become more efficient more of the CM framework was devolved from the Regulations to the Rules. The current governance arrangements whereby BEIS has overall policy-wide responsibility, Ofgem govern the Rules, and the Delivery Body implement and police the rules, is at times confusing and inefficient. Responsibility over certain matters is not always clear and changes to the Rules is often delayed because of this. At times, Rules change proposals are unable to progress due to restrictions in the Regulations, which rely on scarce parliamentary time to allow for changes. As a result, we believe that it would be more efficient to include more of the CM framework to the Rules, leaving the high-level requirements in the Regulations.

We support Ofgem in not running a full Rules change process this year.

Secondary trading arrangements

The GB Market is undergoing significant change, and assets are making extensive upgrades to provide additional MWs and make themselves more efficient. InterGen believe that additional capacity at a CMU with an existing obligation should be able to participate in the T-1 Auction or in Secondary trading to increase their existing capacity by the new incremental capacity.

NGET's Incentives

We believe that Ofgem is right to review NGET's incentives as part of the five-year review. NGET is playing a key role in delivering the CM and the importance of efficient CM operation should be reflected in NGET's incentives. We would argue that stronger incentives are required, for example, to encourage NGET to run the prequalification process in a more efficient manner. Over and above delivery should be rewarded, whilst anything below a stakeholder-determined baseline should be penalised.

Please do not hesitate to get in touch with me should you have any questions regarding any of the points raised in this response (lmackay@intergen.com; 0131 624 7500). In addition, should you wish a meeting to discuss our comments I would welcome such an approach.

Yours Sincerely,



Lisa Mackay
Trading and Commercial Director