



**InterGen response to Ofgem open letter on minded to decision to extend the SBR and DSBR cost recovery arrangements for 2016/17 and 2017/18**

Leonardo Costa  
Ofgem  
9 Millbank  
London  
SW1P 3GE

12 November 2015

Dear Mr Costa,

InterGen welcomes the opportunity to respond to the above consultation.

**Background**

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 largest power generator). As one of the UK's largest independent generators, operating a portfolio of high efficiency gas-fired power stations (totalling 2,490MW; representing an investment of some £2.1bn in today's money), we actively trade in the prompt and forward wholesale power, carbon and gas markets. InterGen is seeking to invest further in the UK through our two consented development projects, Spalding Energy and Gateway Energy Centre. Both of these CCGT power stations will participate in this year's capacity auction and, when constructed, will create around 3,000 direct jobs during construction and up to 60 long term skilled jobs thereafter.

**Response**

InterGen strongly believes that Supplemental Balancing Reserve (SBR) should not be required in a properly functioning market and welcome Ofgem's commitment to not extend funding arrangements once delivery has commenced under the Capacity Market in Winter '18. We have two principal concerns regarding the proposed extension of SBR and DSBR for the period 2016/17 and 2017/18.

Firstly, we believe SBR/DSBR contracts will provide plant that would otherwise most likely close between now and 2018/2019 a financial lifeline thereby allowing it to participate in future capacity market auctions and return to market operation upon the end of its SBR contract. We would support the recommendation made by Energy-UK that in order to avoid distorting the outcome of the Capacity Market, tender results for these services should be published ahead of the relevant auction. Further, we believe that plant which is successful in tendering for an SBR contract should be required to opt out of future capacity market auctions thereby ensuring that only plants which are genuinely additional and which would otherwise close are providing this last resort service

Secondly, we believe that the proposal to relax certain limitations on start-up / warming times for SBR plant will lead to significant market distortion (if exercised) particularly if the volume of SBR plant contracted is increased significantly for next winter.

National Grid's intention to extend the dynamic parameters of SBR providers seems to not only contravene the primary role of this service (utilised as a, quick responding, last resort tool) but it will inevitably reduce prices for other market participants. Marginal thermal plant would inevitably be displaced by SBR plant during ramping periods or would require the system operator to take inefficient balancing decisions to reduce the output.

Ofgem should reject proposals that change the minimum dynamic parameters of SBR plant. If it is accepted, we believe that the recent changes to the pricing methodology for SBR ramping volumes should be revisited in order to minimize further market distortion.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Elder', written in a cursive style.

Chris Elder  
Commercial Director