InterGen response to Statutory consultation on changes to the Capacity Market Rules (the "Rules") pursuant to Regulation 79 of the Capacity Market Regulations 2014 (the "Regulations")

Philippa Pickford
Ofgem
9 Millbank
London
SW1P 3GE

27/05/2016

Dear Ms Pickford,

InterGen welcomes the opportunity to respond to the above consultation.

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.

Please find below our answers to the questions laid out in the consultation.

Question 1 - CP136: Do you agree that de-rating from CEC rather than TEC is a more appropriate way to measure the De-rated Capacity of Interconnector CMUs? Do you agree with the suggestion to cap Interconnector de-rated capacity at TEC, or should the requirement for interconnectors to hold sufficient TEC be removed altogether?

Whilst CEC may be a fair representation of an interconnector's maximum *potential* output during a system stress event, InterGen would suggest that de-rating capacity should not be capped at their TEC and in fact the de-rating process, for non-domestic quasi generation such as interconnectors, should be broad enough to capture the increased risks they possess. De-rating of interconnector assets should reflect the political and market risk that is present in both countries that it connects and how this could drive power flows. Furthermore, future policy change in these countries (which will be in effect by the time the relevant delivery year arrives) such as France's intention to impose a carbon price floor from January 2017.

Question 2 - CP129: Do you agree there are overall benefits to creating a bespoke process for adding new DSR CMU components? (Please provide evidence to support your answer)

N/A

Question 3 - CP95: Do you agree that the combination of CP124, CP129 and CP130 would be a better solution to the issues that CP95 seeks to address?

N/A

Question 4 - CP108: Do you think there is a need to align Capacity Market Warnings with other existing system warnings? If so, how would you suggest this is done? Are there any associated risks?

InterGen would recommend that Capacity Market Warnings (CMW) are issued, as currently planned, on a separate discrete website but also on BM Reports or another suitable centralised reporting platform. CMW should be considered price sensitive data and therefore in the interests of market integrity and transparency the whole market should be made aware of this sort of information.

Question 5 - CP128: Do you agree that the LFCO formula will not scale delivery obligations appropriately during the first TA Delivery Year? Is this issue significant enough to require changes before first TA Delivery Year (starting in October 2016)? If so, how should the formula be amended?

N/A

Question 6 - CP115: Do you agree there is an issue with Rule 10.4.1 (c)(ii)? If so, would our suggested addition to this Rule fix the problem? If not, how should it be amended?

InterGen would agree that if indeed rule 10.4.1 (c)(ii) does impose an unnecessary trading restriction then suitable rephrasing of the rules should be made. It is important that the secondary trading market is permitted to be as liquid as possible within the confines of the rules. The proposed rewording of rule 10.4.1 (c) (ii) seems to provide the required clarity.

Question 7 - CP124: Do you agree with our assessment of the benefits and risks with CP124?

N/A

Question 8 - CP98 and CP148: Do you agree with the solution put forward in these proposals to ensure the participation of dynamic FFR in the CM? If not, what changes to the DSR test and volume calculation are necessary to achieve this?

N/A

Question 9: Do you agree with our analysis and conclusions in relation to connection capacity?

InterGen supports Ofgem's findings in relation to the calculation of connection capacity. In support of our original response to Ofgem's open letter in November 2015, we believe that providing generators with the free choice to select the most appropriate method of calculating connection capacity is the best outcome. It provides generators with the autonomy and responsibility knowing their de-rated capacity, which stems from their CEC, will ultimately be tested during satisfactory performance days but provides them with the opportunity to capture value, in capacity payments, up to their TEC.

Question 10: Would the satisfactory performance requirements remain appropriate if we test up to connection capacity? In particular, would it be appropriate to demonstrate satisfactory performance on three separate days, and for CMUs to lose all capacity payments if this is not met?

InterGen would not support this proposal to test up to connection capacity through the process of satisfactory performance days. If a capacity provider's obligation is their de-rated capacity then that is what they should be tested up to. In the event that, during a system stress event, a capacity provider delivers above their de-rated capacity then they should be able to receive any over-delivery payments they may be entitled to. National Grid will procure a volume based off a variety of de-rating factors and therefore testing capacity providers against a different benchmark to which that capacity was procured would not seem consistent.

Question 11: Would market rules around exceeding TEC result in genuine capacity being excluded under this approach? Does the ability to purchase short term TEC help address this? If not, is this a significant enough issue for concern?

Current rules that ensure capacity providers de-rate volume cannot exceed their TEC does not seem to pose a significant threat to security of supply but rather any period of system tightness will allow capacity providers to generate above their de-rated obligation and capture any additional over-delivery payments.

Question 12: Do you consider that there is a significant risk of capacity withholding if generators are given a free choice of connection capacity? Would any additional measures be needed to help mitigate this risk (e.g. minimum capacity thresholds or supporting justifications for going below certain thresholds)?

If indeed a proportion of capacity is being withheld, up to c.1GW as the report suggests, InterGen would suggest this does not pose a significant risk but rather should allow, in a situation of system tightness, wholesale prices to reflect scarcity levels and the additional 'hidden' capacity would be allowed to cover an insufficient supply margin. Granted this requires an element of trust from the system operator but it gives the UK energy market a chance to operate as it should do.

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