Response to the Electricity System Operators incentives from April 2017

ENGIE UK

ENGIE, formerly known as GDF SUEZ, is a global energy company operating in three key sectors of power, natural gas and energy services. The company puts responsible growth at the heart of all its businesses in order to address major energy and environmental challenges: responding to the demand for energy, ensuring security of supply, combating climate change and making optimum use of resources.

ENGIE is present in 70 countries worldwide and has expertise in four key sectors: independent power generation, liquefied natural gas, renewable energy and energy efficiency services.

In the UK, ENGIE has interests in a number of activities across the energy value chain, from gas exploration and production through to services. In total, ENGIE employs approximately 17,000 people throughout the UK across all of its businesses. In generation, ENGIE is one of the country's largest independent power producers, with interests in 4,025 MW of plant. This comprises a mixed portfolio of generation assets that include gas, CHP, wind and the UK's foremost pumped storage facility. The portfolio includes a retail business supplying electricity and gas to the Industrial and Commercial sector, and the company continues to develop its renewables business in the UK.

ENGIE is also the UK's leading district energy company. We design, build, finance and operate district heating schemes on long term concession agreements. ENGIE's high profile district heating schemes include; the Queen Elizabeth II Olympic Park, Southampton District heating scheme, Whitehall District Heating scheme, Leicester District Heating Scheme and Birmingham District Heating Scheme.

ENGIE welcomes the opportunity to respond to the Electricity System Operators incentives from April 2017 .

Executive Summary

- **We believe the current Scheme with modifications relating to the spill energy from demand side services should be rolled over for a further 12 months.**

- **The spill energy from the SO use of demand services needs to be included in the cost of delivering services from this class of users. This will provide an appropriate incentive in combination with the existing C16 license condition to resolve the current distortion that exists between the use of BM and non-BM STOR services in despatch and procurement.**

- **We do not believe that on balance a new SO-TO incentive is required.**

CHAPTER 2: Whether to maintain the existing incentives framework	
Question 1a: Should we place financial incentives on the SO in the period between 1 April 2017 and when we are in a position to implement longer term SO incentives?	In general we are in favour of incentives on the SO that are specific, targeted and ring-fenced. The information asymmetry and ability of the SO to reduce its incentivised costs whilst affecting elements that are not covered by the incentive scheme (thus increasing overall costs to consumers) is a genuine concern. Examples of this are the short term reduction in energy prices following the April '16 Black Start intervention; spill energy costs from the use of non BM services and TRIAD costs from the use of demand services outside of TRIAD periods. STOR is an example of this. Although the incentivised costs have fallen, the costs to customers of the extensive use of non-BM STOR has led to significant increase in other customer costs outside of BSIS through the spill energy payment (RCRC) that falls on all energy customers and also on the TRIAD payment that falls on demand users.
Question 1b: If we maintain financial incentives from April 2017 to spring/summer 2018, should we use the existing BSIS framework?	We believe that if the existing framework is used, the impact of demand services and non-BM users on customer costs needs to be included. Specifically the effect of the spill energy resulting from the use of demand services needs to be included in the incentivised pot. We believe that the provision of black start needs to be taken out of the existing scheme and dealt with via a separate (possibly licenced) mechanism. Market distortion occurred as a result of the recent intervention by the SO in this area resulting in a significant proportion of the fixed costs of a number of generating units being financed though BSUoS rather than the energy market.
Question 1c: Do you agree that if we maintain the existing incentives	Yes we do see above.

framework during this period, we should seek improvements from the 2015-17 scheme?	
CHAPTER 3: Scope of potential changes from the 2015-17 scheme	
Question 3a: How could the BSIS target setting approach and modelling methodologies be improved in the short term?	The effect of the spill energy resulting from the used of demand services needs to be included in the incentivised pot.
Question 3b: Do you believe the existing BSIS sharing factor and cap and floor remain appropriate?	Yes although the use of "IAE" and does undermine the cap and floor approach.
Question 4: What is the best way to set an incentive on the SO to incur efficient costs when procuring Black Start from April 2017?	There should be no incentive. Instead there should be a licence obligation that requires the SO minimise the effect on the energy market of interventions in this area.
Question 5a: Do you agree that we shouldn't maintain the MDLC?	Yes
Question 5b: Do you agree that we shouldn't maintain the SO IRM? Are there any alternative ways to encourage innovative behaviour from the SO in the short term?	Yes
Question 6a: Do you believe there is a need for a new incentive on short term demand forecasts from April 2017? How could this be designed? What timescales should it be based on: week ahead, day-ahead, hour-ahead, other?	No: - in general the incentive should not target SO internal developments. It should only target external contracting activity. The existing licence provision should be used for NG internal activities. The existing funding of SO costs is sufficient to cover this activity.
Question 6b: Do you think there needs to be any changes to the wind generation forecasting incentive or new incentives on any other system forecasts?	No: - in general the incentive should not target SO internal developments. It should only target external contracting activity. The existing licence provision should be used for NG internal activities. The existing funding of SO costs is sufficient to cover this activity.
Question 7: Do you think the SO's procurement of balancing services needs to be more transparent and open? If so, what steps should be taken? Should the SO pursue more market-based approaches? Should we introduce any incentives or requirements on the SO in this area from April 2017?	Information on the use and cost of demand services are not currently reported on a real-time HH basis. Spill energy payments relating to the use of demand and non-BM services are not currently factored into all procurement and despatch decisions.

	We believe that these two elements should be reported by the SO with an appropriate incentive in place.
Question 8: Do you agree with our proposed scope of changes? Is there anything else you believe should be changed, added or removed from the existing scheme	See answers to previous questions.
APPENDIX 1 – Consultation on SO-TO mechanism	
Question 9: Do you agree that there is a need for a mechanism that allows the SO to exchange funds with the TOs? Are there any additional pros and cons that we should consider in our analysis? Do you agree it should be introduced from April 2017?	No we do not agree that there is a need for a SO-TO incentive. One of the benefits of common ownership of the SO and onshore TO is the close co-operation that exists between the two areas. We believe that the existing licence requirement to co-ordinate the activities is sufficient. The existing TO RIIO settlement provides sufficient funds to meet the licence requirement. Were there to be a not for profit SO, it would be appropriate for this type of incentive to be put in place.
Question 10: Do you agree with the codified-approach?	No
Question 11: What do you consider to be the most appropriate cost recovery levy methodology?	See Q9
Question 12: Do you agree with the proposed approach with regard to the financial aspects of the mechanism outlined above?	See Q9
Question 13: Do you agree with our proposed investment threshold for Ofgem approval?	See Q9
Question 14: Do you think the costs incurred through a mechanism should be incentivised as part of an overarching financial target on balancing costs, or as part of a separate financial incentive?	See Q9
Question 15: What, if any, impact will limiting the mechanism to the end of RIIO-T1 period have on the efficiency of potential projects that	See Q9

cover both RIIO-T1 and RIIO-T2 periods?	
Question 16: Are there any other criteria we should consider for such projects?	
Question 17: What level of transparency would you want regarding this mechanism?	
Question 18: Do you consider that we have identified the changes required correctly? Are there any other changes required to the existing framework in order to implement the mechanism?	
Question 19: Are there any other factors that you think we need to consider in the design of the mechanism?	

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