OFGEM
9 Millbank
London
SW1P 3GE

3rd February 2017

Dear Ms Kelso,

InterGen welcomes the opportunity to respond to this letter.

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/Yuedean).

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 stations, which are "shovel-ready", will cost around £750million to construct and create around 3,000 jobs over their three year build programmes.

Response

In November 2015, InterGen responded to Ofgem's minded to decision to extend the SBR and DSBR cost recovery arrangements for 2016/17 and 2017/18. In this response we were clear in stating that we felt SBR offered a financial lifeline to uneconomic coal plant and placed a substantial financial burden on the wider market when it came to recovering the procurement costs of this service via BSUoS. In January 2016, InterGen along with other independent generator executives met with Dermot Nolan to convey our concern at the market distortion caused by SBR. In our meeting with Mr Nolan we stated that in the case of a generator with a c.1% market share of GB capacity, over winter 16/17, additional BSUoS, attributable to SBR procurement costs, would equate to c.£600,000. This was a significant cost that market participants were expected to absorb and, for independent generators like InterGen, there was no possibility to recover this cost through a consumer base.

InterGen welcomes the proposed decision to remove SBR and DSBR cost recovery arrangements for 2017/18 and obligations on NGET to submit methodologies in respect of any future procuring, testing and utilising of SBR/DSBR. We support the intent of the new direction provided in the attached; however, we would suggest that cost recovery removal via BSUoS should be applied to any mechanism which seeks to procure the same services from the same technology as SBR does. The decision should apply to the principle of SBR and not simply to this particular procurement tool. InterGen has concerns that while this may protect market participants from future inflated BSUoS costs due to SBR/DSBR cost recovery fees, it does not prevent a similar tool being used by NGET to solve the same problem in future years. Policy and regulation should look forward and support new capacity which can replace uneconomic coal plant, rather than support it.

Yours sincerely

Lisa Mackay
Commercial Director
InterGen