



## InterGen response to the CMA provisional decision on remedies

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7<sup>th</sup> April 2016

Dear Sir/Madam,

InterGen welcomes this opportunity to respond to the Competition and Markets Authority's provisional decision on remedies to the energy market. We understand that this response and the information contained herein will be treated as confidential and will not be disclosed to other parties without our prior written consent.

### **Background**

InterGen is one of the UK's largest independent generators, operating a portfolio of three high efficiency, low emissions producing, 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 addition, InterGen has two new gas-fired generation projects which are "shovel-ready" in Spalding and Essex (Gateway Energy). These new stations will cost around £1billion to construct over their three year build programmes and create around 3,000 jobs locally.

### **Detailed Response**

We set out our responses below (using the numbering in your 'Summary of Provisional Decision on Remedies' paper):

***19 – 24: Locational adjustments for transmission losses***

**20.** InterGen would agree that locational adjustments to the Transmission Loss Factor (TLF) will help incentivise future investment decisions that will aid the balancing of the transmission system. In the short term, however, these changes could be interpreted as a windfall gain/tax on existing generating assets with some winners and losers.

InterGen would add that in arriving at a suitable methodology for setting the TLF the CMA/Ofgem should consider some consequences:

1. If TLF is to be set seasonally then the factor is unlikely to be dynamic enough to reflect the balancing challenges faced by NGC with the increasing level of intermittent renewable generation (much of it embedded) located away from the demand centres and requiring conventional thermal generation to run to support system voltage and inertia; and

2. If the TLF is to be calculated per settlement period then it will become an uncertain variable cost. It can be assumed that the volatility of TLM in any location will increase as the charge will not be smoothed by a national averaging that currently occurs. For a generator already exposed to the heightened BSUoS costs caused by the increasing portion of intermittent generation in the UK fuel mix this is not an attractive prospect. Dispatch decisions made by the marginal plant (currently CCGT) will be proven economic or uneconomic retrospectively as BSUOs and now TLF become values only known at settlement stage well after the event.

As the methodology for calculating the TLF has not been disclosed/decided and whether it will be zonal/generator specific, InterGen would encourage that before any final decision is made on this that industry is fully consulted on this issue.

The below chart, taken from a report produced by NERA and Imperial College<sup>1</sup>, shows that the modelled Transmission Losses drop by an almost equal amount irrespective of whether or not the zonal TLF is applied seasonally or an hourly basis. Thus the welfare benefit to the consumer will be equal under both methodologies. However, as expressed above an hourly TLF could result in uneconomic dispatch and an unpredictable and highly volatile component of a plant's variable costs.

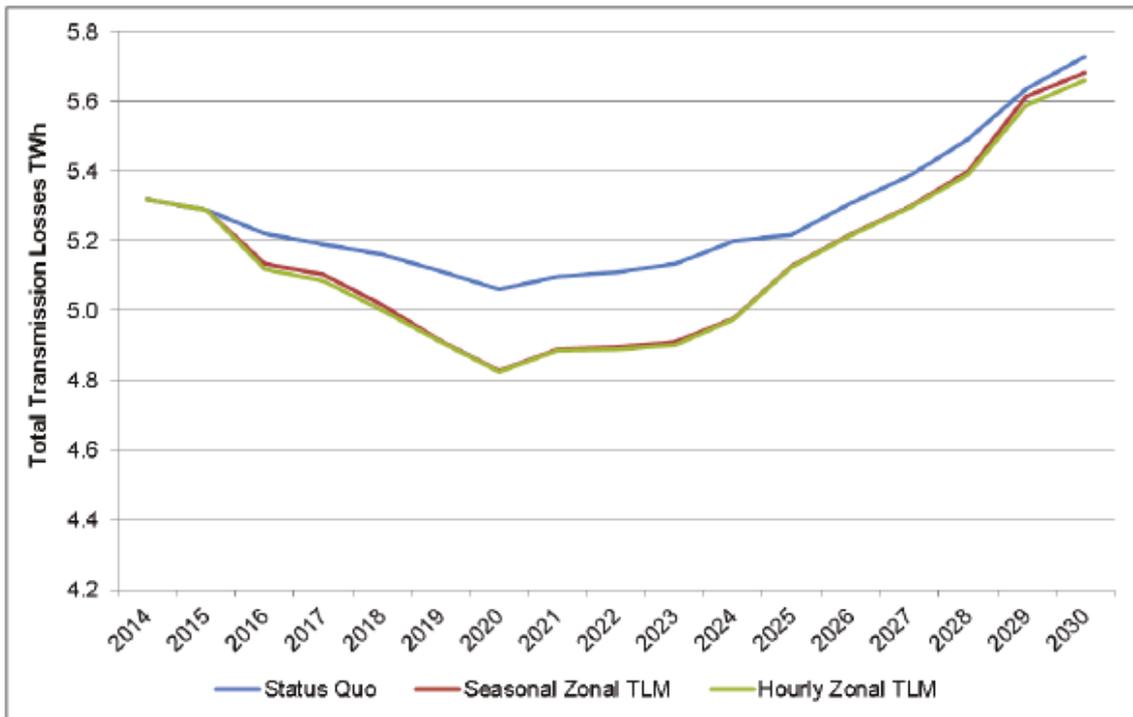
InterGen support the implementation of a seasonal TLF published in advance so that generators can incorporate this into their costs with a degree of certainty.

The hourly TLF could result in generators 'spilling' or deliberately generating in excess of their contract position so as to provide a buffer against facing imbalance penalties should the TLF prove volatile and unpredictable. This would be a direct contradiction of the intent of the electricity cash-out reform which sought to provide greater incentive to balance the contract position to the level of generation.

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<sup>1</sup> [https://assets.digital.cabinet-office.gov.uk/media/55e8568140f0b6467a000023/RWE\\_note\\_and\\_NERA\\_report.pdf](https://assets.digital.cabinet-office.gov.uk/media/55e8568140f0b6467a000023/RWE_note_and_NERA_report.pdf)

## Transmission Losses (TWh) - All Scenarios



Source: NERA/Imperial

**21.** InterGen disagrees with this proposal. It would serve to add further costs to marginal generation plant, force reliable CCGT capacity off the system and ultimately heighten security of supply concerns.

Were transmission losses to be applied 100% to generators this would have a significant impact on short run marginal costs (SRMC) and gross margin. Furthermore, it would present a significant and unfair advantage to interconnectors currently exempt from transmission losses (along with all UK network charges). InterGen would suggest that if interconnectors are providing MWs on to the UK transmission network they should be subject to transmission losses along with all other UK generation.

Yours Sincerely,

Lisa Mackay  
Commercial Director  
InterGen

