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Electricity System Operator Forward Plan

InterGen welcomes the ongoing establishment of the Electricity System Operator (ESO) as a stand-alone business. The ESO's evolving role necessitates greater independence to limit conflicts of interests, perceived or otherwise. We also welcome the move to a more interactive and assessment-based incentive framework and the opportunity to respond to the ESO's Forward Plan for delivery. We are however concerned that the plan currently lacks significant ambition and challenge for the ESO. In some areas it is also unclear how the baseline was derived and therefore its appropriateness. In undertaking its significant role, consumers and market participants alike rely on the ESO to ensure a safe, secure, and fair electricity system at the lowest cost. Therefore, only above average performance should be rewarded, which in some areas translates to a significant improvement compared to the status quo. We discuss this in more detail and further comments, below.

Background

InterGen remains the only genuinely independent generator active in the GB 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 issues regarding the GB wholesale electricity market.

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/Yudean). We are 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). Additionally, 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 CCGT projects at sites in Spalding (Spalding Energy Expansion) and Essex (Gateway Energy). These new CCGT stations, which are shovel-ready, will create around 3,000 jobs over their three year build programmes.

Response

Whilst we welcome the intentions outlined in the Forward Plan, we believe that some of the proposed performance metrics fall short of providing an effective incentive to improve performance. One example is *Code administrator – stakeholder satisfaction*, an area where some would argue that the system operator is currently underperforming against an average baseline. As a result, a small percentage improvement in performance here would still fail to meet market participants' reasonable baseline expectations. A greater challenge would be to ask stakeholders to rate overall satisfaction of the ESO's role as Code administrator, ranked on a scale between 1 and 10. The ESO would then not be rewarded for improvements if it is still underperforming against expectations. This is also true regarding NOA engagement where it is reasonable to expect greater levels of engagement considering the importance of the document. As such, the ESO should aim higher and target at least 10 responses to NOA consultations and in terms of NOA consumer benefit, a more appropriate average would be calculated disregarding the first year (£0.00 customer value) and instead target 6 value add options and a consumer value of £240m.

Moreover, we believe that more can be done in terms of improving forecasting accuracy for day ahead transmission demand and day ahead BMU. Non-baseload plants rely on accurate, up-to-date forecasts to make timely dispatch decisions, however, since the ESO is not proposing to reforecast within day to take into account the latest information, plants will execute inefficient dispatch decisions. This is also true regarding the ESO's Trades and data transparency as close to real-time trades will remain an issue and, despite the target of publishing trades data within one hour of capture, will continue to lead to non-optimal dispatch. To aid transparency, it would be helpful if the data published is accompanied by narrative around trades to explain why certain actions are taken and that clear procurement guidelines are made available.

Progressively more volatile and unpredictable BSUoS increases wholesale prices and reduce competition in the market. We therefore welcome a move to more granular BSUoS forecasting. However, we are disappointed to see that the quality and accuracy of the forecast will not be measured and assessed. More accurate forecasting will remove the need for generators to add a risk-premium to power sold into the wholesale market and into Balancing Mechanism pricing, therefore putting a downward pressure on wholesale prices, directly benefiting customers. Due to its market position and depth of resource, the ESO is well-placed to produce robust BSUoS forecasts and should be incentivised to commit the resource to improve accuracy. The ESO should also report on its performance and include a narrative to explain where the forecast and outturn numbers diverge.

Finally, whilst we approve of surveys as a way to measure certain performance, it must be clearly communicated to stakeholders how the surveys will be used and applied, including how the different scores translate to an ESO reward, penalty, or baseline.

If you would like further discussion on any of the points raised above, please do not hesitate to get in touch.

Yours sincerely,



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