



Project Manager
Energy Market Investigation
Competition and Markets Authority
Victoria House
Southampton Row
London
WC1B 4AD

14th August 2014

Via Email: energymarket@cma.gsi.gov.uk

Dear Sirs

**Energy Market Investigation: Statement of Issues
Submission by InterGen**

We support the decision to make a market investigation reference in respect of the supply and acquisition of energy in Great Britain and welcome the opportunity to make an initial submission to the Competition and Markets Authority (the "Authority").

We believe the Statement of Issues provides a comprehensive scope and urge the Authority to engage fully with independent generators throughout this investigation to ensure that a wide range of views are considered. We strongly believe that the current market structure and market concentration in the generation and supply sectors inhibit new entry and place existing non-integrated suppliers and generators at a competitive disadvantage to vertically integrated utilities.

We would urge you to give appropriate consideration to the generation sector as well as the domestic supply sector in your assessment. We do this with the strong conviction that consumer mistrust cannot be overcome without confidence that the wholesale market is functioning effectively.

Background

InterGen is one of the leading independent generators in the UK with a track record of developing, constructing and operating large scale thermal power generation projects. We currently own and operate a portfolio of three high efficiency, low emissions producing, flexible gas-fired power stations (totalling 2,490MW; an investment of £2.1bn in today's money). These stations are located at Rocksavage (Cheshire), Spalding (Lincolnshire) and Coryton (Essex). We have around 140 employees in the UK.

We have operated in the UK since 1996 and actively sell our power directly to suppliers and other wholesale market participants through long term structured contracts or in the prompt and forward wholesale electricity markets. We are currently developing two new CCGT projects, Spalding (Lincolnshire) and Gateway Energy (Essex) and it is our intention to pre-qualify these projects for the UK Government's first capacity market auction to be held in December 2014.

Issues for the investigation to consider

Liquidity

a) Wholesale market – forward curve

As an independent generator, InterGen relies upon the wholesale market as a route to market for its power sales. We were a vocal supporter of the market-making reforms brought forward by Ofgem in April 2014 to improve liquidity in wholesale power markets ("Secure & Promote"). We are concerned that despite the introduction of Secure & Promote the volume of peak demand period sales transactions for forward seasons

InterGen (UK) Ltd

Registered in England in 1995. Number: 3039100. Registered office: 21 Holborn Viaduct London ED1A 2DY.



INTERGEN

remains incredibly low despite tightening system margins. There is no simple single reason for this but in our view credit constraints, substantial regulatory uncertainty (e.g. carbon price support, introduction of cash-out reform) and the hedging strategies adopted by the vertically integrated suppliers all play a role.

b) Wholesale market – long term (beyond the forward curve)

InterGen and other independent developers have traditionally relied upon long-term (up to 15 year) tolling / capacity contracts to finance the construction of new projects. We have recently undertaken a detailed exercise to secure customers for our new CCGT plants. Currently there is limited appetite for traditional tolls with the majority of vertically integrated companies having either built their own plant and / or having their own development plans.

Without a “route to market” to contract long-term energy market revenues, independent thermal developers will be unable to finance and construct new projects which may otherwise be built at a lower cost to consumers than comparable projects being developed by vertically integrated utilities. A simple example is shown for illustrative purposes below:

£/kW	Vertically Integrated Utility	Independent Generator
Price needed to make CCGT economic (e.g. independent secures a lower cost construction and maintenance contract than a Big 6 company – proof?)	125 (A)	100
Capacity Market price bid	75 (B)	75
Market revenue needed	50 (A – B)	25
Best for consumers	X (as higher cost project)	✓
Route to market for “market revenue”	Pass to retail arm – stable	None – no PPA/toll appetite
Reach construction	✓ (if balance sheet)	X

This “route to market” issue has been acknowledged by the Department of Energy and Climate Change (“DECC”) in its Gas Generation Strategy (December 2012) and during the consultation process regarding implementation of Electricity Market Reform, and the Capacity Mechanism in particular. In February 2014, InterGen prepared a short paper for DECC regarding this need for a bankable route to market for independent thermal generators which we would be happy to share with you.

c) Inefficiencies in wholesale market

We note that a number of vertically integrated utilities describe internal transactions between their retail, generation and in some cases trading businesses, being priced ‘at market’. This has traditionally been a difficult issue to regulate but one which we think is worthy of detailed assessment by the Authority not least to address the question of ‘opaque’ prices which has led to such high levels of consumer mistrust. Even as a relatively sophisticated market participant, it is not clear to us from the segmental statements produced by the vertically integrated utilities the basis upon which certain costs and risks (fixed and variable) of their generating businesses are passed through to their retail or trading business.

We have also noted recent examples of less efficient plant owned and operated by vertically integrated utilities being dispatched at significantly higher load factors than our own merchant plant. Again, whilst there may be perfectly legitimate reasons for this, we are concerned that this may be due to the fact that certain risks and costs typically borne by an independent generating business are being passed through to other parts of the

InterGen (UK) Ltd

Registered in England in 1995. Number: 3039100. Registered office: 21 Holborn Viaduct London ED1A 2DY.



INTERGEN

vertically integrated organisation and ultimately to domestic consumers. We would therefore urge the CMA to investigate carefully the basis upon which generation plant is dispatched and, in particular, the categories and values of variable costs which form the basis of this decision. We would be happy to explain our dispatch strategy for our existing merchant plant as a basis for comparison with other generators (integrated or otherwise).

We would invite your team to visit us at our regional offices in Edinburgh or our UK power station(s) to discuss these matters further.

Yours faithfully

Chris Elder
Director, Strategic Execution
Energy Markets Group
InterGen