Comments on specific issues in the CMA Updated Issues Statement and associated Working Papers
GDF SUEZ Energy UK-Turkey

GDF SUEZ has the following comments on the updated issues statement and working papers published by the Competition and Markets Authority up to 11 March 2015.

On Locational Pricing

1. The CMA believes there to be a wide consensus that a well-functioning market would have spot prices that include an element reflecting short-run locational costs (congestion and transmission losses).

2. Any change in this area would add complexity, and create winners and losers for existing assets. Congestion charging could reduce the pool in which generators can trade, potentially damaging liquidity and increasing transaction costs. Such a change would be more onerous for companies with small generation portfolios. It would also be detrimental to wind generators located at the periphery of the system, increasing the need for subsidies.

3. GDF SUEZ believes that any gain in economic efficiency could be more than offset by the practical difficulties of implementation, and the further actions that would be needed to protect low carbon generation and fuel-poor customers negatively impacted by the change.

On wholesale market arrangements

4. The CMA considers that the Reserve Scarcity Pricing (RSP) aspect of the cashout reforms, when combined with the capacity mechanism, may lead to an overpayment to generators.

5. GDF SUEZ has responded to the ELEXON consultations on the proposed cashout reforms and has strongly opposed the introduction of the RSP aspect of the reforms. This is not because it would lead to overpayment (GDF SUEZ does not agree with this assertion) but because of the very high degree of uncertainty as to whether the RSP aspect will feed into the cashout price calculation.

6. Traders need cashout prices to give a reliable scarcity signal - GDF SUEZ does not believe that the RSP aspect will provide this. GDF SUEZ therefore agrees that it is right to question the introduction of the RSP function but for different reasons. GDF SUEZ does however believe that a decision of this reform should be left with Ofgem and note that Ofgem will conclude on this prior to the CMA's preliminary findings.

On Capacity

7. The CMA intends to investigate further whether the rules relating to length of capacity agreement available to DSR providers and the way in which Capacity Market costs are recovered run the risk of distorting competition.

8. It will also investigate whether the upside of the capacity payment, coupled with no apparent downside of entering into a capacity agreement, could result in existing generators that are unable to meet their obligations reliably bidding into the Capacity Market.

9. On these three issues, GDF SUEZ has the following comments:

   - GDF SUEZ supports one year contracts for DSR on the basis that the level of investment in the equipment to provide DSR is much lower than that needed to build new generation. The contract durations therefore seem proportionate.

   - GDF SUEZ supports the current cost recovery mechanism – it provides a wider incentive to reduce load at peak times. It is unclear how costs could be recovered on the basis of system stress events if there were none.

   - Capacity payments have been introduced to provide the 'missing money' to the wholesale electricity market and are now critical to the future viability of generators. Since generators can lose all of this payment, the current penalty cap is sufficient.

26th March 2015