

Gas Generation Call for Evidence
Area 4E
3 Whitehall Place
London SW1A 2AW

25 June 2012

Ref: mdj-decc0612gasgen

Dear Sir/Madam

Call for Evidence on the Role of Gas in the Electricity Market - Thames Power Response

Thames Power is the operator and part-owner of Barking Power, an independent power producer (IPP) in East London with 1000MW of existing gas generation and consented plans to build a further 450MW on an adjoining site. As such we are able to provide a perspective for both existing and new plant in responding to this call for evidence. We have been involved in the EnergyUK response and are supportive of it, we comment below only where we have additional points to make.

a) What are the main strengths and weaknesses of gas generation in helping deliver a secure, affordable route to decarbonisation through to 2020 and then by 2050?

Flexible and reliable generation is required to meet the residual requirement between inflexible and intermittent low carbon generation and demand. Gas generation provides the proven technology which can deliver this with the lowest carbon impact. As coal plant close due to LCPD and IED over the coming 10 years then it will be needed to fill the gap left behind.

A risk of this approach is that a greater reliance on gas reduces fuel diversity in the UK power generation sector which may raise pricing and fuel security concerns. However, older gas plant such as Barking have the proven capability to run reliably on distillate oil, but there are costs to maintaining it. Consideration should therefore be given to whether the provision of such a reserve capability should form part of the capacity mechanism.

b) What role can gas fired generation play in the future and what level of gas generation capacity is desirable?

No comment

c) What are the key factors driving the economics of investing in new gas-fired power generation and how are these factors likely to change?

The key drivers for investment in new plant (clean spark spread, regulatory certainty, recovery of fixed costs with a lower expected load factor) are also all applicable to keeping an existing plant open, but the investment decision is smaller and with a shorter timescale (albeit still involving significant costs to be recovered to maintain plant either available or in a dormant state such that it may be made available in the future). There is a risk that due to the lack of a clear and firm capacity price signal a significant capacity of existing gas plant will close for economic reasons with no real prospect for return in the coming months and years due to the current supply surplus. This is despite these power stations potentially having a further 10-15 years of technical life. These closures have the potential to lead to a capacity gap (2014 – 2020) as coal and oil plant close and the decision to build new plant is delayed. In order to make the correct decision between keeping existing plant open versus building new plant then the capacity mechanism arrangements should be finalised and the first auction held as soon as possible.

Specifically on the proposed capacity mechanism this should provide an incentive for the right capacity to remain open / be built. There may be benefit then in considering reserve fuel capability, the provision of ancillary services and the plant location as part of the decision making process for capacity contracts.

d) What barriers do investors face in building new gas generation plants in the UK? What are the key regulatory uncertainties that may prevent debt and equity investors making a final investment decision in gas generation and supply infrastructure?

No comment.

e) Are there any other policy issues that need to be addressed beyond the Government's proposals for the capacity mechanism and the EPS?

No comment.

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f) Given a continuing role for gas and the potential for increased volatility in gas demand, to what extent is gas supply and related infrastructure a barrier to investment in gas fired generation? What impact will unconventional gas have on the case for investing in gas generation and the supporting infrastructure?

No comment.

Please contact me should you require any clarifications on this response.

Yours faithfully