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Dear Mark

Transmission Price Control Review 2007-12: Third Consultation

Thank you for the opportunity to comment on the third Transmission Price Control Review consultation document. This response is submitted on behalf of International Power's operating companies in the UK: First Hydro Company; Rugeley Power Ltd; Deeside Power Development Company Ltd; and Saltend Cogeneration Company Ltd.

General Comments

In general we support revisions to the connection arrangements in the following areas

- Fixing the level of final sums at the point when a connection offer is accepted
- Reducing the level of final sums to only include local works when the generator has obtained planning consents.

The major issue that has been identified by the industry are the issues around final sums, one of the major options considered in the report is centered round increased user commitment on an ongoing basis for new and existing generators. We believe that this proposal does not address the problem and may cause significant market issues for independent generating companies. Ultimately this may leading to either further market consolidation and/or a significant additional burden for consumers.

New Connection Issues

The significant number of new connection applications in the Scottish TO regions has two root causes: firstly the BETTA arrangements created a situation where the timing of applications prior to BETTA gave greater certainty of an early connection date; and secondly the current access arrangements encourage applicants to be first in the queue.

We understand that many of the applications (although there is no transparency of these) are small in size and do not have the benefit of planning or other consents. We believe that the unique set of circumstances created by the current Scottish queue are unlikely to be repeated and we have concerns a solution the Scottish queue issue may be sought that is not appropriate for enduring arrangements.

We believe that a sensible way forward for the queue would be to allow new connection to be relieved of the obligation of providing final sums for infrastructure work after they have received local planning permission and to fix the liability for aborted local works at the point an offer is made. This will encourage new entrants to get through the significant hurdle of planning at an early stage (or hold off applying until planning is obtained) but help share the risk of infrastructure work with the community once planning is obtained.

User Commitment

We believe that there should no new ongoing commitment for new and existing generators to provide security for TEC in future years. One of the reasons put forward for enhanced user commitment is that it would provide the TO with additional information relating to use of the network.

However, an additional commitment would be seen as a sunk cost for the generator and would affect the closure economics. Rather than close a station to release capacity (either short or long term) the generator would be faced with a sub-optimal decision to continue to hold capacity whilst the short run economics may indicate closure. This could therefore constrain efficient market exit - generation can currently withdraw from the market (mothball) and release capacity for use by others. With enhanced user commitment, short or medium term withdrawal would no longer be possible leading to additional cost for customers as uneconomic plant continues to operate.

Any commitment linked to TNUoS would provide a variable commitment with no commitment in negatively priced zones. The level of final sums does not follow the TNUoS profile and the TO's are expected to spend significant sums reinforcing the network in lower and negatively prices zones where significant and costly constraints do exist.

There would also be a significant additional burden on independent and small generators, who do not meet the TO credit rating requirements, through the costly provision of security. This could divert credit allocation from the traded markets, impacting further on liquidity. Both of these security related issues would increase the market risks for independent players, and potentially lead to additional cost for consumers.

Legacy arrangements

Any change to the existing arrangements would need to be sensitive to the legacy issue that may be created. Existing power station have been constructed and operated under the current arrangements providing final sums for new connections. If the burden for new entrants was eased whilst imposing additional burdens existing generators existing generators would be seen to suffer the worst of both worlds, adding to the already heavy burden of regulatory risk that is ultimately borne by the consumer.

Yours

Simon Lord
Transmission Services Manager