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Dear Mr Hull

Zonal Transmission Losses

Uskmouth Power Limited welcomes the opportunity to respond to Ofgem's impact assessment consultation. Generally we believe that charging should be cost reflective and support a move to zonal losses, but we also recognise that there is a balance to be struck especially where the market participants cannot immediately adjust to the incentive being given. There is also a trade off between cost reflectivity and the cost of achieving that goal, in terms of systems changes, operational planning, hedging, etc.

Uskmouth believes that Ofgem's consultation document covers all of the main issues arising from the modification proposals and we congratulate you on a succinct and clear document. We would therefore like to make the following observations at this time:

Uskmouth Power does not support any attempt to hedge or phase losses in over time. If we are to have locational signals in the market those should be introduced in a clear cut way. We therefore do not believe that P198A, P200 or P200A would better facilitate the relevant objectives when compared to the other modifications. P200 in particular may create distortions by basing the hedging scheme on historical output, which may not result in efficient operation given future market fundamentals. These proposals would not provide the clear locational signals that the P198, P203 or P204 all offer. However, they would be an improvement over the current baseline.

Uskmouth has always appreciated that the modifications which propose to introduce a seasonal calculation of losses will result in the most cost reflective charges and therefore represent the most efficient solution. However, we are not convinced that the complexity and cost of introducing seasonal losses can necessarily be justified when compared to the additional benefits that seasonality offers. P203 does clearly better fulfil the relevant objectives, notably the efficiency of the way the market will operate and the increased

competitive pressures between players. P203 would also be more efficient than P198A in that it would not phase the introduction over 5 years.

The variability offered by P204 does appear to have some merits as the notion of negative charges sits uneasily with economists. However, as parties will continue to pay their fixed losses the negative zonal variable losses are unlikely to lead any party to be able to free ride on the system. It therefore looks like an unnecessary complexity that the market could probably do without. The benefits of simplicity over total accuracy probably suggest P204 is a step too far. Again we would recognise that the modification does better facilitate the relevant objectives compared to the current baseline.

Uskmouth continues to believe that P198 would better fulfil the relevant objectives and would provide clear signals to all participants about the locational costs associated with use of the transmission network. The factors remaining constant during the year make it simpler for smaller players to hedge their risks and plan their operations. As mentioned above, we also feel that P203 offers a good solution, but remain concerned by the issue of seasonality. Both would deliver change in a timely manner which is an advantage over the modifications with phased introductions.

We hope that these comments are helpful, but if you would like to discuss any of the points raised please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rebecca Williams'. The signature is fluid and cursive, with the first letter 'R' being particularly large and stylized.

Rebecca Williams
Head of Trading