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Dear Anna

Distributed Energy – Initial Proposals for More Flexible Market and Licensing Arrangements

Welsh Power Group Limited (Welsh Power) welcomes the opportunity to comment on Ofgem and BERR's initial proposals for introducing greater flexibility to the market, regulatory and licensing arrangements for Distributed Energy (DE), as signaled in the Energy White Paper.

Welsh Power is a dynamic independent power company, which aims to build an integrated multi-asset European energy business using a buy and build strategy.

Welsh Power owns Uskmouth Power, a 363MW coal fired power plant. Uskmouth is one of the most efficient and clean coal plants operating in the UK. We also have a subsidiary Severn Power Limited who is building an 850MW gas-fired power station on the brown-field site next to Uskmouth Power. In January 2007 Welsh Power launched Haven Power, an electricity supply company providing predictable electricity prices and straightforward contracts tailored to the individual needs of business customers.

Welsh Power recognise the potential role DE has in contributing to the energy mix and helping towards reducing greenhouse gas emissions, and therefore support Ofgem and the Government's commitment to ensuring that the regulatory arrangements do not raise any barriers to the wider uptake of DE. For example, ensuring Distribution Network Operators (DNOs) develop cost-reflective Distribution Use of System (DUoS) charges for distributed generation is vital. We are pleased to see Ofgem has noted that only one DNO offers negative charges for DE and has committed to taking action if DNOs do not deliver cost-reflective tariffs within 12 months. We believe cost-reflective charging in relation to costs of connection and use of network charging is essential for DE to grow within the existing competitive market framework.

Another area where improvements could be made to increase DE projects is revenues received from Renewables Obligation Certificates (ROCs). Appendix 10 of the consultation document contains DE Case Studies, illustrating the severity of

issue with numerous companies explaining how income from ROCs is uncertain, along with onerous sampling procedures and complex administration processes. We believe the Renewable Obligation scheme could be significantly improved to increase certainty associated with the revenues earned via ROCs and therefore reducing the perceived risk of financing the DE project. Greater certainty associated with ROCs in the long term is a major factor in determining whether some DE projects go ahead.

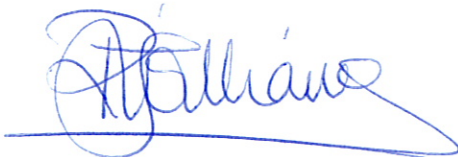
Welsh Power would also like to highlight its concerns with regards some of the other initial proposals contained within the consultation document. In particular, we do not believe it is appropriate to consider potential changes to the cash-out regime to help encourage DE projects, i.e. make specific changes to accommodate small intermittent generators at the expense of the economic and efficient operation of the system. Modification P217 is currently looking at ways to make cash-out cost reflective and Issues Group 30 has all reviewed cash-out issues. Any proposals that are taken forward to encourage DE must not undermine the principles of cost reflective, economically efficient prices. In its decision on P212 Ofgem has already recognised that some changes to cash-out could reduce the incentive to balance (making it more attractive for intermittent generators to participate), but are likely to also result in the System Operator (SO) taking more costly, real-time actions.

There should be no changes to the market to benefit DE directly unless they improve the market arrangements against the applicable objectives under the BSC. Many of the issues faces by DE generators should be addressed via bi-lateral contracts in the market. If DE generators are having problems securing fair contractual arrangements then Ofgem should be concerned that there is not sufficient competition in the wholesale market.

To conclude, Welsh Power would like to see those proposals associated with cost-reflective charging and revenues streams from ROCs and LECs, being taken forward first. We believe that these proposals are likely to have a positive impact upon encourage DE projects whilst preserving the integrity of the competitive market and imposing no unnecessary costs on the system.

Please do not hesitate to contact me on xxx if you have any questions regarding this submission.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'A. Williams', with a long horizontal flourish extending to the right.