



First Hydro Company is part of a joint venture between
International Power plc and Mitsui & Co., Ltd.

First Hydro Company
Bala House
Lakeside Business Village
St David's Park
Deeside
Flintshire
CH5 3XJ

Tel + 44 (0)1244 504 600
Fax + 44 (0)1244 504 613
www.ipplc.com
www.mitsui.co.jp

Mark Feather
Director, Industry Codes and Licensing
Ofgem
9 Millbank
London SW1P 3GE

16 January 2009

Dear Mark,

Code Governance Review: Charging Methodologies governance options

I am writing to you on behalf of International Power's UK generation assets (Deeside Power Development Co Ltd., First Hydro Company, Rugeley Power Generation Ltd., Saltend Cogeneration Ltd., and Indian Queens Power Ltd.) with regard to Ofgem's consultation on the charging methodology governance options.

International Power believes that the present arrangements, in which there is no ability for market participants to formally propose modifications to charging methodologies, would benefit from review and improvement, and therefore welcomes the opportunity to submit a response to your consultation.

Of the options presented within the consultation, we prefer the model which would transfer the charging methodologies into the governance arrangements of the existing codes (option 3). This would ensure a more independent, transparent and accountable process than exists at present. We see this option as preferable to either the creation of a new charging methodology change management code (option 4) or modifying the current licence regime (option 2). We have concerns that under option 2 the change process would still not be independently administered and view option 4 as a disproportionately expensive solution. We clearly do not support simply maintaining the status quo (option 1) as this would not allow sufficient engagement by market participants.

We think that the development of risk mitigation measures is a crucially important element of any reform given the potential for a large number of charging methodology change proposals, some of which might prove to be single company issues or of a frivolous nature. We have the following comments on the measures proposed in the consultation:

First Hydro Company
Registered in England: 02444277
Registered Office: Senator House
85 Queen Victoria Street
London EC4V 4DP

- **Annual or bi-annual windows** – we do not think that ‘change windows’ would help to ensure an orderly, proportionate process. There would be no limit on the quality or quantity of proposals received during a window, however short.
- **Annual Restrictions on numbers of changes** – nor we do not believe a ‘cut-off’ after a certain number of modifications had been raised would be appropriate. Though this would clearly limit administration costs, it would be an arbitrary restriction and would be open to potential abuse.
- **Thresholds for Network Users** – we believe that this might be more effective than the previous two suggestions however we are concerned about the difficulty in actually establishing a fair threshold. We do not agree that a percentage of market share would be appropriate as this could result in larger market participants being favoured. It is also difficult to envisage an alternative such as a minimum number of parties for establishing a fair and meaningful threshold level.

We think that a more appropriate mechanism might be to employ a threshold at panel level, to decide whether a charging methodology change proposal should progress. Any charging methodology modification proposal would go to the relevant panel and if a majority of the panel were in favour it would progress, with the Authority able to overrule any rejection at this stage.

I hope find these comments useful and we look forward to participating further in the review and attending the forthcoming workshop.

Yours sincerely

Emma Williams

Interim Manager, Market Development