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Mark Feather
Ofgem
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Dear Mr Feather

Code Governance Review – Charging methodologies and environmental objectives

Welsh Power, owners of Uskmouth Power, Severn Power and Haven Power, welcomes the opportunity to respond to these consultations.

Charging

Welsh Power believes that there should be greater industry in-put into the charging methodologies, while recognising that it is only the monopolies who would really have the information to fully assess what each charging option is likely to do in terms of delivering their allowed revenue. While there can be significant redistributive effects from changes to the charging methodologies, the current regime does not allow alternative options to be considered from those raised by the monopolies.

Welsh Power believes that pricing as a general rule is closely linked to the products offered in the markets. For example, the new transmission regime needs not only new CUSC rules but associated charging methodologies. Our support for different transmission options is in part dependent of the charging regimes that will accompany them. It is far more difficult to fully consider the impact of a code modification to your own business without knowing the associate charging regimes, which currently seem to develop after the products rather than with them. We would therefore support moving charging to be part of the existing codes and allowing all players equal rights to propose changes.

Ofgem's related consultation on the problems encountered by small participants recognises that the smaller players have problems associated with attending meetings, keeping up to speed on changes, etc... Recognition of these issues would lead us to conclude that having yet more codes to monitor, meetings to attend, etc. would not be helpful and therefore a charging code should be ruled out. Furthermore the different meetings would not necessarily lead to joined up thinking when developing the code rules and associated pricing regimes. We are aware that NGG often discussed pricing papers at UNC meetings which seems a sensible way to achieve maximise transparency and inclusion in the process by parties.

Moving pricing under the codes also reduces the regulatory risk of Ofgem using a licence as a vehicle to implement a change to pricing that may not have been fully considered by the industry. The licences are not as transparent as the codes and are meant as a vehicle to regulate monopolies, whereas the codes are the commercial contracts that govern the operation of the industry. It would therefore appear more logical that the charges sit within the codes. It would also help ensure that the charging regimes of the various monopolies do not diverge, in line with Ofgem's position on DNOs' charges.

Welsh Power would note that it is the methodology, not the level of charges that would be in the code, so the monopolies should not be concerned that their allowed revenues would not be recovered if other parties could raise charges changes. Parties' interest in charging is of course a commercial issue, but they recognise that the monopolies' price controls allow them to collect their allowed revenue and most will favour predictable prices, rather than volatile prices, just as the monopolies do.

In terms of the number of changes raised, Welsh Power would note that many of the changes to charges have been driven by policy changes such as the introduction of auctions, etc.. Ofgem is also now proposing that they should be able to do policy reviews, which are bound to result in changes to charges. Ofgem must therefore accept that as with modifications the governance processes have been designed to make the market dynamic where players can respond to changes in circumstances. While we have a market designed to change then Ofgem and the industry must accept those changes and the associated administration. It would not be helpful to go down a route where only changes raised by specific parties are considered.

On uncertainty, the industry would have greater certainty if Ofgem had a more constructive engagement at the meetings where changes are discussed. More "minded to" involvement cuts the risks of unexpected changes from arising as often. Ofgem should also drop the idea of any "policy initiatives" as the regulator, rather than the parties, requesting change will certainly add to uncertainty and create an environment where the regulator can become judge and jury.

Welsh Power is unclear why Ofgem believes that there would be a significant number of changes raised. It seems highly likely that the changes raised will come in groups, as we approach the times when charges normally do change (for example to meet a 1 April implementation in power). As noted above it is easy to argue that there is a case that users want stability in charges for a year, but they also want the right at the time that charges are altered to debate a wider range of options for charging than is currently the case.

Environment and Code Objectives

Environmental considerations are now a major part of the energy markets and it is anomalous that Ofgem must be mindful of the environment, but not the industries' own governance structures. In principle Welsh Power therefore support a requirement on the Panels to consider the impacts of changes on the environment. However there is also a pragmatism that is required as it seems unlikely that the industry (especially those attending modification meetings) have the expertise to fully evaluate the environmental impact of some modifications. There is also likely to be limited agreement on the extent that a modification will impact emissions when compared to the overall policy framework in which the industries operate, for example under the Large Combustion Plant Directive, EU ETS, etc..

If Ofgem goes for environmental issues it will need to consider how it defines "environmental impacts" if it is to make the assessment both achievable and valuable. For example would transmission auctions lead to more new build than say connect or manage, and which impacts do we consider when looking at a power station being built?

Welsh Power would propose that initially the impact is limited to GHGs only and that the obligation is clearly defined, so that the reports to Ofgem outline if there is an impact and if the industry believes that the impact is material, either increasing or reducing GHG emissions. It should be reasonable for the impact to be qualitative rather than quantitative in the report. Where an impact is deemed significant Ofgem can ask the Panels to do additional work on this and could help with carbon pricing, etc. so that the work can support Ofgem's own decision making process.

If you wish to discuss any of the issues raised in this paper please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink that reads "Rebecca Williams". The signature is written in a cursive, flowing style.

Rebecca Williams
Head of Trading