



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

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Ian Marlee  
Director, Trading Arrangements  
Ofgem  
9 Millbank  
London  
SW1P 3GE

27 March 2009

Dear Ian,

## **National Grid Electricity Transmission and National Grid Gas System Operator incentives from 1 April 2009 – Final Proposals Consultation**

We welcome the opportunity to respond to the Final Proposals on the 2009 SO Incentive Scheme. These comments are provided on behalf of all of the International Power/ Mitsui assets in the UK and apply only to the Electricity Transmission System Operator scheme.

It seems that the principal issues and difficulties with the Incentive Scheme have been clearly identified, in particular the uncertainties surrounding constraint costs and the potentially excessive weighting given to 2008 data. To this extent the Final Proposals represent a measured approach to risk and reward. Given the uncertainty surrounding constraint costs (the levels of which remain a concern), especially the UIOLI issue, the recognition of the potential need to revise the Incentive Scheme downwards is important; should it be necessary to adjust the Incentive Scheme then the commitment to engage with industry is to be welcomed.

The longer process through which National Grid has informed industry and consulted on this year's incentive scheme marks an improvement on the method employed in previous years. However, it is clear that this process could be improved further and we support the AEP's concerns about the process raised in their response to this consultation. The level of detail provided by National Grid has been useful, although we think that this can be developed further. This is particularly the case as regards system constraints and the calculation of constraint costs; under the current method it is difficult to gauge and comment on the accuracy of National Grid's constraint cost forecasts.

If you have any questions on our response then please do not hesitate to contact me.

Yours sincerely

Kevin Dibble  
Director, Marketing (First Hydro)

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