



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

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9 October 2009

Dear Andrew

### **Governance of charging methodologies – Initial proposals**

International Power welcomes the opportunity to comment on Ofgem's initial proposals for the potential reform of network charging methodologies. Although we agree that in principle opening up the charging methodologies to network users and other affected parties might lead to benefits in terms of inclusivity, transparency and accountability, we are concerned that in practice any significant reform of charging methodologies would lead to increased costs and risks from the resulting uncertainty and volatility in network charging. We believe that progressing reform via either of Ofgem's preferred options would lead to more frequent and less predictable changes to charging and would entail major resource implications for Ofgem and industry. In light of these concerns, we believe that incremental change which builds on the current arrangements, rather than radical reform, presents the best model for change.

International Power would support a move to formalise the current arrangements. This should involve a formal process to allow network users to raise proposals for consideration within the relevant charging forum, with the network operator retaining the discretion over which proposals merit full development. As the network operators have licence obligations to ensure that the charging methodologies they have in place fulfil the relevant charging objectives (which Ofgem has the power to enforce), we are satisfied that the network operator would be required by licence to progress any user proposal which merits development.

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We do not therefore support either of the options for change presented by Ofgem. However, were we to choose between the two, our preference would be for Option 3, transferring the charging methodologies into the existing industry codes, because of the safeguard provided by the route to Competition Commission appeal, though we believe this Option would require considerably more resource than suggested by Ofgem's analysis and would be concerned about the implications for price certainty and stability.

With regards to the mitigation measures proposed by Ofgem we would support the use of fixed implementation dates as this would provide some degree of certainty as to when potential changes would occur. We are not however convinced that annual or bi-annual windows for raising proposals would help to ensure an orderly, proportionate process. It would still be possible for significant numbers of proposals, at varying stages of development, to be raised in a window, whatever its length. A time limitation does not in any way guarantee the quality of the proposals being raised and will not prevent the potential for continual revisiting of certain charging issues, spurious single-issue proposals and unmanageable numbers of proposals. The use of windows could also prove to be inefficient as it could potentially prevent a user from suggesting a beneficial change at an earlier opportunity. If Option 3 is adopted we think a more effective mitigation 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.

However, we believe that the approach we have outlined above, in allowing all parties to propose changes, but relying on the network operator to decide which merit development, would avoid the need for blunt mitigation measures.

We hope you find our comments useful.

Yours sincerely

Emma Williams  
Market Development