

Response to the September Update to Initial Proposals of DPCR5

IPM Energy Retail Limited Response – 19th October 2009

IPM Energy Retail Limited (IPM) is a newly established electricity supplier targeting half hourly metered medium sized Industrial and Commercial customers. The majority owner of IPM is International Power plc (IPR), who are a UK-based FTSE-100 independent power generation company with interests in over 45 power stations and some closely linked businesses around the world. With its partner Mitsui & Co., Ltd of Japan, IPR owns and operates 7% of GB's generating capacity, which represented 6% of the market by output in 2008.

IPM welcomes the opportunity to respond to the September update for DPCR5. It is encouraging to hear that in most instances further costs have been reduced in the pending Price Control review, albeit with a degree of future cost uncertainty as a consequence.

IPM operates within the fixed term, fixed price half-hourly market and uncertain future costs affects our ability to guarantee prices for customers during their contract period. Whilst most suppliers have the ability to pass-through elements of costs, the knock-on effect of re-billing and potential customer dissatisfaction means that we do all we can to avoid doing this. With the possibility of re-openers during the price control period, we would welcome an approach of either sufficient lag (at least 24 months) in implementation of increases and/or a smoothed increase over a number of years. This would minimise the impact on costs of supply for contracted customers and therefore reduce the potential requirement to pass-through any increases. It is the magnitude rather than the frequency of re-openers that is a concern, therefore allowing re-openers for relatively small amounts does not seem to be an issue. We suggest that a pre-agreed cap on increases within a period of time be put in place. This would allow suppliers to understand the worst case scenario, which should reduce the risk premium applied to customer tariffs to protect against this additional uncertainty.

Customers expect fixed term contracts to offer protection against additional charges during their contracted period and do not wish to understand the complexity of unavoidable increases in costs. Spreading or lagging increases over a longer period would assist us in absorbing any cost increases on contracted customers and reduce the uncertainty and therefore the risk when pricing new business.

Stephen Harris - Commercial Manager
DDI: 020 7320 8734, Mob: 07989 492720
Email: stephen.harris@ipmenergyretail.com

Binoy Dharsi - Commercial Analyst
DDI: 020 7320 8709, Mob: 07989 492 445
Email: binoy.dharsi@ipmenergyretail.com