

Potential Significant Code Review – open letter consultation

*Submission by International Power plc
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(I) About International Power plc

International Power plc (IPR) welcomes the opportunity to contribute Ofgem's consultation on potential significant code reviews (SCRs).

IPR is a global independent power generation company with interests in over 32,000 MW of generation capacity in 21 countries. This includes approximately 5000 MW of plant in the UK market where, in partnership with Mitsui & Co., it owns and operates the coal fired station at Rugeley, Deeside Power CCGT, Saltend Cogeneration Plant in Hull, First Hydro Pumped Storage Stations at Dinorwig and Ffestiniog in North Wales, and Indian Queens peaking plant in Cornwall; the company also has a share in Derwent Cogeneration plant. These assets represent a 7% market share, making IPR one of the country's largest independent power producers.

(II) Summary key points

Ofgem is proposing three substantial significant code reviews for 2011. We are concerned that this will divert limited industry and regulatory resources during a time of considerable activity on potential market reforms. These reforms could encompass a wide range of fundamental issues including: a carbon floor price, a capacity guarantee mechanism, a low carbon obligation, a successor to CERT and replacing ROCs with FITs. We recognize that work needs to start on realizing the benefits of smart metering but do not see the current urgency in the other two proposed SCRs. Market reform proposals may in any case mean that the SCRs and subsequent code modifications become redundant.

(III) Views on potential SCRs

Electricity cashout SCR

In general the market seems quite content with the current cashout arrangements and we do not detect much appetite for change; the last cashout modification (P217) was raised in October 2007 and implemented in November 2009.

We agree that a review of the P217 cashout arrangements could be a worthwhile exercise but it is unclear how this would differ from National Grid's recent assessment of P217. Before embarking upon this piece of work, to avoid duplication of effort, Ofgem should establish what else it wants to achieve from such a review.

We acknowledge that the need to invest in peaking capacity will become more challenging in the coming decade. Cashout prices do not fully reflect the cost of using peaking plant as a large part of

the cost at the point of use has been sunk so does not get factored into the utilisation price. However, a SCR to strengthen price signals at times of system stress should be delayed until at least 2012. There are a number of major market changes expected in 2011 and industry needs to focus its limited resources on considering the impact of these more important issues. By 2012, it is quite possible that there will be detailed proposals for reform of the market which could negate the need for Ofgem's proposed SCR or suggest that it should be focused in a different area (a single cashout price for example).

If Ofgem does decide to go ahead with this SCR then we question whether it will bring about the intended benefits. We do not believe that strengthening the price signals will necessarily drive investment in peaking plant. An investor would not wish to rely on these occasional price spikes (or an assurance that the rules wouldn't be changed to avoid them) as the sole source of income and would not be able to predict with certainty when they would occur or ensure that the best possible price was captured.

In summary, whilst we are open to exploring whether there is a better way to determine price signals at times of system stress we are not convinced that this is an urgent piece of work given other priorities or that it will encourage further investment in peaking plant. We suggest that the necessity for this SCR should be reconsidered in a year.

Gas Security of supply SCR

IPR is neutral to this proposal. We understand the logic of reviewing the gas emergency cashout arrangements given that prices did not respond as might be expected last winter. However, again we question whether such a review will lead to investment in peak energy supplies and whether such a review is appropriate given the extent of other market changes that will be developed in 2011.

Smart metering SCR

Ofgem intends a review lasting at least 12 months on the changes to the settlement arrangements to realize the benefits of smart metering. We agree that this work is necessary and should be driven forward centrally to ensure coordination.

A world in which all meters were or could be read half hourly would have a big impact on settlements, imbalance and industry costs. We therefore question Ofgem's suggested timescale and whether this will be long enough given the time taken to introduce the 1998 trading arrangements.

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