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Dear Bob

Changes to the Offshore Transmission Owner (OFTO) availability incentive

Frontier Power, Macquarie Capital and Barclays Infrastructure Funds are pleased to have the opportunity to respond to Ofgem's letter dated 28 March 2011 on proposals for changes to the OFTO availability incentive. In this letter we set out our material responses to questions 1 and 2, which you have requested by no later than 8 April 2011. Our responses to the remaining questions will follow by 22 April 2011.

Question 1 - Does removing monthly availability targets lead to a simpler and better targeted incentive?

We agree with the proposed simplification of the monthly availability incentive mechanism. In our view, the OFTO can be incentivised appropriately to avoid outages in certain months using the incentive rate factor alone. The existing arrangement of both a monthly incentive rate and a monthly availability target creates additional complexity for no apparent benefit as the same effect can be achieved with a single variable to weight the availability incentive depending on the forecast generation revenue for each month. We agree that the incentive rate is the appropriate variable to use for this, rather than the monthly availability target, as it varies the value of a "lost" MWhr rather than arbitrarily varying the transmission availability target.

Question 2 - Would the incentive better meet its policy intent if we replaced the credit banking mechanism?

We welcome Ofgem's proposal to replace the credit banking mechanism with a mechanism which pays out credits earned in an incentive period in the relevant revenue year. We agree that this change would sharpen the incentive on the OFTO to outperform in the months and years following a major outage and it would also better incentivise the OFTO to reach availability over the target as financial rewards would be received earlier. Inter alia the OFTO would be able to pass a share of the incentive through to its O&M providers in a more transparent way to incentivise O&M providers to outperform. The 5 year credit banking mechanism does not enable the OFTO to do this as the OFTO can not pass through a share of any credits to O&M providers until 5 years have passed and credits can be wiped out by penalties in the intervening period, which means that O&M providers currently do not place much value on a share of credits. The proposed change therefore would not only simplify

the licence algebra significantly but would improve the ability of the OFTO to incentivise its O&M providers appropriately.

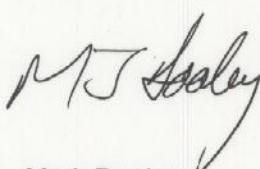
We will provide our views on the remaining questions posed in your open letter before the due date of 22nd April.

As ever, we remain happy to discuss our comments with Ofgem at any stage.

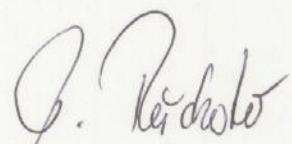
Yours sincerely



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