



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

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Ian Marlee  
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Ofgem  
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London  
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31<sup>st</sup> March 2010

Dear Ian,

## **National Grid Electricity Transmission System Operator Incentives from 1 April 2010 – Final Proposals**

We welcome the opportunity to respond to the Final Proposals on the 2010 SO Incentive Scheme. These comments are provided on behalf of all of the International Power/ Mitsui assets in the UK.

### *The 2010/11 Final Proposals*

We consider the final proposals to represent a fair balance of risk and reward. The inclusion of automatic adjusters is an important factor given the significant uncertainty surrounding the forecast (particularly regarding constraint costs).

### *Moving Forward*

The wide range of forecasts published by NGET for the 2010/11 scheme over a relatively short period of time has clearly demonstrated the difficulty in constructing a robust forecast for the year ahead. NGET's modelling has been detailed and carefully explained during the consultation process but there is significant inherent uncertainty over out-turn costs. These problems can only be magnified for multi-year schemes. Whilst moving to a multi-year scheme may be theoretically desirable, there are substantial obstacles to producing a robust multi-year forecast. Any development must focus on achieving reliable indices alongside a clear process for managing changes in the available information (such as outage planning). There should be extensive consultation on the results of any review process with substantial supporting evidence before any such multi-year scheme is implemented.

Further, alternative methods to minimise customer costs should be investigated in preference to multi-year schemes, such as incentivising specific value adding projects identified by NGET.

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

Yours sincerely,

Andy Rimmer

Trading Analyst