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Dear Cheryl,

**Transmission Access Review – Enhanced Transmission Investment Incentives:
Initial Proposals**

Thank you for the opportunity to respond to the above consultation. E.ON UK is largely supportive of the proposals outlined in the document. Our specific answers to the questions posed in the consultation are as follows:

Chapter 2, Question 1: Do respondents consider we have appropriately summarised the views of respondents to our September consultation?

Although some of our views were summarised, it did appear that an element of our response which we felt was important may have been missed. In our response we stated that we believed that reinforcements should be prioritised according to the following criteria in order that the TAR objectives are best met:

1. They should allow for the connection of a significant amount of generation capacity that would not have otherwise been the case;
2. They remove or relieve constraints caused by an existing derogated boundary, or avoid the need for a further derogation; and
3. For transmission companies with associated generation interests, they should not show a systematic bias towards connecting these projects over and above others wishing to connect in their area.

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The aim of prioritising strategic investment should therefore be to maximise the benefits in terms of increased generation (both for meeting low carbon generation targets and for security of supply), efficient constraint costs and improved competition.

We believe that is a view that Ofgem would agree with and may indeed already form the basis of the “need case” part of the assessment being carried out by its consultants.

Chapter 2, Question 2: Do respondents have any comments on the initial findings of our consultants or views on the issues raised by the TOs?

We are not in a position to give an accurate view as to the appropriateness of particular reinforcements and trust that Ofgem and its consultants have carried out an appropriate assessment of each proposed project and will continue to do so. As we state above, investment needs to be prioritised carefully in order to maximise the benefits in respect of meeting the TAR objectives.

Chapter 3, Question 1: Do respondents have any comments on our proposed funding framework for additional investment within TPCR4?

We agree with Ofgem’s approach which entails introducing simple and pragmatic arrangements at this stage of the process. Introducing an ex ante allowance up to the end of TPCR4, on specific projects assessed as being suitable to be progressed at this point, is a practical solution that allows the flexibility for enduring incentive arrangements to be developed further as part of the RPI-X@20 project.

Chapter 3, Question 2: Do respondents have any views on the appropriate funding mechanism for provision of pre-construction funding?

We believe that these pre construction costs should be funded as Capex. A large amount of expenditure is being proposed which if treated as Opex would have a significant effect on TNUoS tariffs. TNUoS payers are already facing the possibility of a substantial shift in tariffs part way through the 2010/11 charging year due to the Go Live of the Offshore Transmission arrangements. Treatment as Capex would limit the impact of this funding on tariffs by spreading it over a longer time period.

However, such an approach is also appropriate in principle as this represents up front expenditure to facilitate the commissioning of capital works. As future users will benefit from this investment, it therefore seems appropriate that they should contribute to its cost.

Chapter 3, Question 3: Do respondents have any views on our proposed approach to identifying projects eligible for construction funding?

Subject to the criteria mentioned above the approach set out in the consultation document appears appropriate.

Chapter 3, Question 4: Do respondents have any views on our proposal to fund construction costs up to the end of TPCR4 for specific projects? Do respondents agree that it may be appropriate to provide funding up to an earlier end date for projects in certain circumstances?

This appears to be sensible and means that should a different approach be devised for the enduring arrangements to apply from TPCR5, that this can be introduced as widely as possible. We believe that where possible the creation of multiple arrangements operating at the same time should be avoided and the approach outlined by Ofgem would help achieve this aim.

Chapter 3, Question 5: Do respondents agree that the same rate of return should apply as for other investment undertaken within TPCR4?

Yes. There does not appear to be an increased risk to TOs associated with these proposals. Therefore, there does not seem to be a reason to increase the rate or return to apply either.

Chapter 3, Question 6: Do respondents have any views on the appropriate treatment of projects beyond TPCR4 or on any interaction with our decision on the timing of TPCR5?

The proposals would seem to facilitate a more flexible approach for TPCR5. Allowing the RPI-X@20 project's work to be implemented through the next price control would appear to be a desirable approach. However, given that the present price control was not designed to meet the requirements of the intervening years between the formal end date for TPCR4 and the potential delayed TPCR5 start date, care will have to be taken to ensure that rolling over the arrangements does not result in parties being exposed to undue costs.

Chapter 3, Question 7: Do respondents have any comments on any other aspect of our Initial Proposals?

No thank you.

Chapter 4, Question 1: Do respondents have any views on our proposed approach for taking forward our work on TO incentives to facilitate further investment within the current transmission price control?

Given our concerns about the impact that these proposals could have on TNUoS charges, we welcome the statement in 4.5 that any under recovery caused by not implementing the arrangements in time to set TNUoS tariffs for 2010/11 will be recovered from the following year's tariffs. We note the concern about the effect this may have on a TO's cash flow, although presumably appropriate recovery of interest charges would be allowed for in such a reconciliation.

Chapter 4, Question 2: Do respondents have any views on our proposed consultation process going forward?

No thank you.

We hope the above comments prove helpful.

Yours sincerely

Paul Jones
Trading Arrangements