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Dear David,

RE: Response to ‘small generator discount’ consultation and impact assessment

Thank you for the opportunity offered to E.ON UK to consider the issues contained within the BETTA ‘minded to’ statement on the interim discount for small transmission connected generators. Having considered the views and impact assessment within the minded to statement we are still of the view that the concept of the discount is fundamentally flawed. We have consistently asserted that it is appropriate for small transmission connected generators to pay a TNUoS charge which adequately reflects their usage of the network.

Differing usage of the Distribution and Transmission Networks.

Transmission connected generators are able to sell to the National Balancing Point which allows access to a large market. In contrast an embedded generator has to trade with a local supplier within the relevant distribution network. In a circumstance where the embedded generator is less

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than 100MW they are deemed not to be using the transmission network and so do not have to pay TNUoS. Similarly, the local supplier is deemed not to be using the transmission network for the energy taken from the embedded generator. Given that there is an acceptance that it is highly unlikely that these participants will impact the transmission network, the basis for their exclusion from TNUoS charges appears to be rational.

By definition, transmission connected generators whether small or large will obviously, to differing degrees, impact the transmission network. This difference in size is already accounted for by the current charging methodology which scales the TNUoS charges in relation to the generators proportion of capacity. The argument in favour of a discount suggests that there is a need for small transmission connected generators to receive comparable benefits to similar sized embedded generators. However, this is not comparing like with like. It is a false relationship based purely on size, a factor which is already addressed in the charges. This is not an issue of discrimination, but rather the utilisation of a charging methodology which properly reflects the demands placed on each type of network. Failure to maintain the distinction between distribution and transmission connected generators will undermine cost reflectivity and introduce cross subsidisation.

Nevertheless, we accept that Ofgem's 'minded to' statement makes the introduction of such a discount a distinct possibility. The following comments seek to address the questions provided by Ofgem within the consultation.

The setting of the 'discount' as a percentage of the total residual

Clearly, of the four options available for consideration within the document E.ON UK believe that option 4 *'To retain the status quo whereby no provision is made to discount charges for small transmission connected generators'* represents the best option.

Ofgem have suggested that it is an anomaly resulting from a disparity in the proportion of residual costs faced by small generators which forms the rationale for the discount. Notwithstanding our opposition to this discount, we can at least, given this perspective, see the logic behind option one. Whilst option one would erode the principle of cost reflectivity it appears to be more cost

reflective than either options two or three. The cap suggested in option two would be an arbitrary measure which would result in either over or underestimation. This intervention would only serve to discriminate one way or another, and hence skew competition. Option three would introduce a significant level of cross subsidisation, discriminate against small embedded generators and in terms of cost reflectivity would be completely counterintuitive.

Using 25% of the total residual as an appropriate level for the discount in terms of its impact on small generators and in terms of its impact on demand charges

Whilst we do not agree with the discount, we concur that should Ofgem introduce such a concession that 25% of the total residual charge would address the perceived disparity.

To continue to use 25% as the basis of the discount in future years rather than to set a fixed £/kW sum

Should the discount continue in future years we believe that a proportion of the residual TNUoS charge would be more appropriate than a fixed £/kW sum in terms of cost reflectivity.

If you have any questions with regard to the issues raised in this response please don't hesitate to contact me.

Yours sincerely

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