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Dear Patrick,

RE: Recovering the costs of compensation for temporary physical disconnection (CAP048).

Thank you for the opportunity offered to E.ON UK to consider the issues contained within the above consultation document. We would like to recommend the following approach, which we have summarised in the bullet points below and justified in the remainder of our response.

- More information is required in order to develop an appropriate incentive level for compensation payments.
- Current arrangements should be extended for a further twelve months to the whole of GB with the ability of NGC to raise an I.A.E. if compensation exceeds £2 million.
- The ability to pass through high and unpredictable costs needs to be subject to incentive arrangements but only once a considered and objective incentive level can be deduced.

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Rationale for suggested approach

We do not believe that it is necessary to adopt two separate recovery mechanisms. The basis for the proposal seems to be that there is a lack of historical data for Scotland with regard to the likely level of compensation and therefore it would not be possible to calculate an appropriate incentive level. We agree with this rationale, but would contend that this reasoning remains as relevant for England and Wales as it is for Scotland. NGC's analysis highlights the difficulty they face in assessing the potential for CAP048 payments in Scotland. We note and concur with each of the following NGC statements;

- *NGC have limited control over the outages for Scottish generators.*
- *The radial nature of the network in Scotland may increase the likelihood that an outage of the transmission system will result in temporary physical disconnection.*
- *The asset ownership boundary in Scotland is different to that in England and Wales.*

However, we do not believe that these factors will necessarily result in significantly higher compensation payments in Scotland. Obviously only a historical perspective could give a level of comfort as to the accuracy of this forecast and as such we are in agreement with Ofgem that a review after one year seems sensible. In support of our assertion, we would note the information provided by Scottish transmission licensees (as part of the CAP048 decision letter), which stated that *"the likely cost of compensation in Scotland indicates that, consistent with the situation in England and Wales, there are only a very small number of incidents that would be eligible for compensation."*

Given a similar potential for compensation payments in Scotland as England and Wales and accepting that greater historical data is necessary for both England and Wales as well as Scotland in order to set an appropriate incentive, it seems reasonable to suggest an extension of the current arrangements. Therefore, we believe that there should be an extension of the ability for NGC to raise an Income Adjusting Event (IAE) where the level of costs associated with CAP048 payments exceeds £2 million. We believe that this approach benefits from being simple, equitable and sensible in that it allows time for an appropriate and uniform incentive to be developed based upon reliable and objective data. Furthermore, by maintaining the £2 million level on NGC, such an approach represents a reduced level of risk on the SO. This would be achieved as a result of the

maximum level of risk remaining unchanged (maximum £2 million) despite the growth in Use of System Charges recovered on a GB basis.

The substantial difference between the compensation payments made in England and Wales last year, compared with that which could have been incurred (as suggested by NGT if slightly different circumstances had prevailed), reveals the uncertainty that remains as to the likely level of compensation even in England and Wales. This provides a compelling argument to maintain the current arrangements for a further twelve months to enable the compilation of temporary physical disconnection data on a GB basis. Whilst we recognise and support the introduction of an incentive level as part of the funding arrangements in the medium term, without relevant historical information, the setting of an incentive becomes arbitrary.

If Ofgem continue to feel that there is sufficient data to justify setting an incentive in England and Wales, we would urge the adoption of a GB wide incentive based upon the best forecast data available. Although we believe that it may be too soon for the introduction of an incentive, for the reasons outlined above, we are of the view that even an incentive loaded towards the higher end of the compensation forecast has to be better than no incentive at all. In conclusion, we foresee the most equitable and efficient funding mechanism originating from a consistent and uniform approach. Our preference would be the continuation of the current mechanism for a further twelve months until Ofgem can have confidence as to the likely materiality of CAP048. However, failing this, a GB incentive would better facilitate consistency and market certainty and would at least ensure a level of control regarding cost recovery.

If you would like to discuss any of the matters raised within our response please don't hesitate to contact me.

Yours sincerely

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