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Dear Sonia,

### **NGET's SO Incentive Scheme 2007/08**

Thank you for the opportunity to respond to December's consultation document. We would like to limit our views to the electricity incentive. As mentioned in our previous response it is very difficult for us to comment on the specific cost forecasts provided as we are not party to the same amount of data as National Grid. However, we have clear views of how the incentive should be structured.

In our previous response, we stated that we believe that the sharing factors of the scheme could be set more modestly than for previous years and still achieve the aim of the scheme. We therefore welcome the options which have been proposed with sharing factors of 7.5% and 10% for the upside and downside of the scheme respectively. However, we do not believe that National Grid should be presented with choices with higher sharing factors as has been proposed for options 3 and 4. Of the two lower sharing factor options, we would prefer option 1 as we are not convinced of the benefit of the price indexation and price risk band built into option 2.

We do not agree that it is necessary to retain the concept of Income Adjusting Events (IAEs). We continue to believe that the IAE provisions should be removed for reasons we have stated previously. Firstly, IAEs usually represent a one way bet in that users do not have the same information to raise them for events which would have reduced the outturn costs. Additionally, we believe that once a scheme has been set it should be adhered to.

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National Grid accepts a single target covering a number of different cost drivers, some of which interact with each other. As has been shown in respect of the scheme for 2006/07, National Grid is not compelled to accept the scheme. If it does so, however, it should be held to the terms of that scheme and not be able to opt out of certain elements which do not outturn as well as hoped whilst retaining the benefits associated with those areas which performed better than expected.

Therefore, in summary our preferred approach would be for National Grid to be presented with Option 1 only with no Income Adjusting Event provisions.

I hope the above points prove helpful.

Yours sincerely

Paul Jones  
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