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Review of policy on licence revocation

Dear Ikbal,

As you are aware a number of E.ON companies are currently undergoing a program of activity to support revocation of their redundant gas and electricity licenses and withdraw from the relevant Industry codes and agreements. This makes Ofgem's review timely and an appropriate opportunity for us to share our experiences.

We are supportive of an approach that aids the revoking of licences when they are no longer required. Our recent experience is that there are significant barriers to actually removing an unwanted licence. While the actual revocation of the licence is relatively straight forward, exiting relevant Industry codes and agreements has many problems. This means that it is often better to continue to incur the costs of being a licensee than to use resources in attempting to exit all the agreements associated with a licence being revoked.

An automatic revocation of licences after a given time does present problems; specifically the enforced cost of exiting the associated agreements and creating barriers to long term market participation.

Within E.ON we have supply licences that have been dormant for a number of years due to particular market conditions making it unattractive for us to remain active in the particular market. The loss of the licence would prevent a quick return to the market

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should market conditions become favourable. Having an automatic revocation of a licence could end up with a company completing the closure procedure and immediately reapplying for the same licence and agreements. For this reason E.ON would not support an automatic revocation process.

We do however believe that the number of licenses held within the Industry should be reviewed and would support a process where the Authority assists licensees who agree to the revocation of their licenses. In this situation, to encourage revocation of redundant licences, we believe that the Authority could help by revoking the licence together with withdrawing the licensee from all the relevant Industry codes and agreements. This will incentivise parties to cleanse the number of licenses held within the industry, thereby rationalising market domain data.

Whilst agreeing with the indicated timescales to trigger the Authority to request permission to close Gas and Electricity Supply licenses we feel that similar timescales should be placed around the Electricity Generation and Gas Shipper licenses. This would ensure this process is more transparent and therefore provide assurance to the Industry.

If closure by the Authority of all the licensee's relevant Industry codes and agreements is not practicable, then revocation should trigger a communication to the relevant Industry bodies to ensure that the withdrawal process from Industry codes and agreements is completed. However, significant work will need to occur around simplifying the withdrawal process if rationalisation of licenses throughout the industry is to be achieved. Our experience of withdrawing from the various codes for our Electricity licenses has been a positive one but completion of all the relevant paperwork has been time consuming and the process does need simplifying to encourage others to instigate withdrawal.

In contrast to Electricity, the process for Gas withdrawal, in particular from the UNC, is both lengthy and less transparent. It lacks the clear communication around the progress of your withdrawal, assurance that key milestones have been reached

and the assurance of a firm withdrawal date, all of which feature in the Electricity withdrawal process. This makes the process cumbersome and time consuming and will act as a deterrent against parties wishing to withdraw Gas licences.

In conclusion, many redundant licences remain active because of the current barriers to closure. Having automatic revocation does not address this problem and may lead to problems of companies no longer having licences but being unable to exit agreements that require the holding of a licence. Having automatic revocation of licences fails to address the main problem of exiting agreements.

In order for Ofgem's review to achieve the full benefits we would suggest that either when the Authority instigates a revocation (with the agreement with the licensee) that the withdrawal from the codes is managed by them, or a large scale review and simplification of withdrawal processes in particular of the UNC process is instigated. Without either of these the effectiveness of the review, but also licensees' attitudes towards it, could be detrimentally affected.

If you wish to discuss our response in more detail please feel to contact me and I will be glad to comment further.

Yours sincerely

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