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Dear Karron,

Recovering the costs of compensation for temporary physical disconnection (CAP048) – proposed modification of transmission licences

Thank you for the opportunity to comment on the above proposed licence conditions. Whilst we understand the reasons for making a change to the allowable revenue conditions, we have some concerns about two principles that have been adopted.

When CAP048 was originally considered by working group, there were two main benefits that it was envisaged it would provide. Firstly, it would allow the transmission rights afforded to generators holding Transmission Entry Capacity to become more financially firm, by providing some form of compensation when the network was unavailable. Secondly, it would provide an incentive for National Grid to manage outages on the network, if the necessary changes were made to its incentive scheme. Clearly, the proposal to allow charges to be passed through to Users without some form of incentive scheme will lose the second of these benefits, as the costs of network outages will be socialised over all other Users. However, we understand the difficulty in setting such an incentive scheme and therefore agree with Ofgem that it would be sensible not to implement a scheme at this present time.

We are concerned however that the proposed text for the licence condition change provides for a retrospective recovery of money paid out under the CAP048 arrangements since April 2004. In the context of Code modification and amendment proposals, Ofgem is rightly reluctant to impose retrospective changes in this manner. We would ask Ofgem to ensure that their criteria for such changes have been met in this instance.

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We are not certain how much money has been paid historically under the CAP048 arrangements. The 22 March letter suggested that only £7.6k has been paid out. If this is still the case, we would question whether it is worthwhile recovering such a small sum through a licence change. If it is of a more substantial nature then it would be inappropriate to expect transmission Users to accept a significant one off retrospective payment of this kind.

Our second issue is similar in nature but relates to the proposed enduring mechanism. It appears that the allowed pass through revenue will be adjusted to recover the cost of CAP048 payments made during the same year. Therefore, if significant CAP048 payments are made during a particular year this has the potential to put large amounts of additional costs onto Users, which by definition could not have been factored into their original cost estimates for that year. As suppliers pay the majority of TNUoS costs they will see the biggest increase. This increased risk for suppliers is likely to prove detrimental to competition in supply. It would therefore be more sensible to recover these costs in the following year, as is the case for other elements of the price control.

I hope these comments prove helpful. Please contact me on the above number should you wish to discuss this issue further.

Yours sincerely

Paul Jones
Trading Arrangements