



Sam Williams
Ofgem E-Serve
9 Millbank
London
SW1P 3GE

E.ON UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG
eon-uk.com

Paul Jones
024 76 183 383

paul.jones@eon-uk.com

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Dear Sam,

Changes to the Offshore Transmission Owner (OFTO) availability incentive

Thank you for the opportunity to respond to the above consultation. This is our initial response to questions 1 and 2 in the document which was requested under more urgent timescales than for the rest of the consultation.

Generally we are supportive of moves to make the incentive scheme simpler. Of course simplicity is not an overriding concern, as there are often tradeoffs between the accuracy of the signal you are trying to send and the simplicity of the arrangements. However, if a scheme is unduly complex not only does this limit the ability of participants to understand how it works and to react to the signal, but also increases the possibility that perverse results may arise in certain circumstances, as possible outcomes become more difficult to predict. Our answers to the specific questions asked are as follows:

Question 1 – Does removing monthly availability targets lead to a simpler and better targeted incentive?

It certainly leads to a simpler incentive. Having two mechanisms for profiling the incentive to individual months in the original scheme did seem somewhat confusing to us. We are uncertain though as to whether this would result in a more targeted incentive. If inconsistencies exist between the two sets of weightings then maybe removing one of them would result in a more targeted incentive. Otherwise, we would expect the outcome to be similar, but delivered through a less complicated scheme structure. Therefore, we would support this proposed change.

E.ON UK plc
Registered in
England and Wales
No 2366970
Registered Office:
Westwood Way
Westwood Business Park
Coventry CV4 8LG

Question 2 – Would the incentive better meet its policy intent if we replaced the credit balancing mechanism?

This is a more difficult question to answer. Clearly, the present form of mechanism, whereby credits can be banked to offset future penalties, can dampen the incentives to perform in those years as the credit provides a buffer against a certain amount of underperformance. Therefore, applying credits as they arise removes this dampening effect, as the benefit becomes sunk and not dependent on future underperformance to be realised.

An alternative view however may be that this will over reward an OFTO for providing an efficient and reliable network; something which could be considered as a basic requirement under the transmission licence. Under the scheme as proposed an OFTO can make an additional five percent in revenue for a year if the network is a hundred percent available, but this represents only a two percent improvement on the target set under the scheme. However, a prospective OFTO might be expected to tender in the knowledge that this additional income stream was available which may reduce the basic level of revenue it would expect for meeting the target, thereby offsetting the effect of the credits to some extent.

As with the change to the monthly availability targets, we can see the benefits that this change would provide in terms of simplifying the scheme.

A particular concern for us is that the arrangements should provide the flexibility to ensure that planned outages are taken at the most appropriate times. This means that outages on the offshore network should wherever possible be coincidental with those of the generator and, where it will impact on the availability of the generator, the onshore network. Additionally, there should be the scope for outages to be shifted, if agreed between the OFTO and generator, to an alternative time without affecting the impact of the incentive on the OFTO. For instance, the generator may want the OFTO to move an outage from a period with a lower level of monthly incentive to one with a higher level, but without the ability to flex the scheme, the OFTO may be reluctant to do so as it will consequently be hit harder under the incentive scheme. We believe that generators and OFTOs would find it helpful if such operational flexibility could be built into the scheme.

I hope that the above points prove helpful. We will be responding to the other questions posed in the consultation in due course.

Yours sincerely

Paul Jones
Trading Arrangements