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Dear Hannah,

Project Transmit: approach to electricity transmission charging work

I write on behalf of E.ON UK in response to your open letter dated 27 May which outlines Ofgem's view that it would be appropriate to raise a Significant Code Review (SCR) in respect of transmission charging. We agree with this view and believe that there are a number of areas of the present methodology which could be reviewed with a view to improvement.

Transmission charging is an issue which has raised a great deal of debate in recent years. Our own personal perspective is that the GB market benefits from TNUoS charges which vary by location, but that the present methodology could benefit from further development. However, we are aware that there are a number of parties in the industry who believe that fundamental changes should be made to the arrangements. Whilst we disagree with this view, the existence of such divergent perspectives on this issue makes it a strong candidate to be covered by an SCR.

Our understanding of your current position is that Ofgem believes that it would be beneficial to undertake an SCR in respect of transmission charging, but that it would not be appropriate for this to consider wider market structural changes, as significant market reform is already being considered under other initiatives both at a UK and a wider European level. We agree. Our preference would be for the review to consider incremental changes to the present methodology which would provide improvements in the short to medium term.

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In our response to the call for evidence we made a number of suggestions as to where review of the current arrangements may be helpful such as:

- The present treatment of intermittent generation in locational charging models. This should be extended to consider how different types of generation affect investment in the transmission network.
- Whether the present treatment of DC converter stations in the charging methodology is appropriate.
- The possible adoption of an average $G=0$ charging regime.

We believe that these issues should all be considered under the SCR if it is undertaken.

We note that Ofgem would ideally like any changes to be made so that they take effect from April 2012, but accepts that this may be challenging. We agree. The present target period for publishing the SCR conclusions is January 2012. Following this, proposed changes would have to be raised, presumably by National Grid, and progressed through the normal code modification process. This is highly unlikely to be achieved within two months, particularly as time would have to be allowed for Ofgem to make a final decision on any proposals and for implementation to take place.

If, as it seems, it is more likely that any changes would have to be made after April 2012, we would warn against significant changes being made within a charging year. As we have mentioned in previous correspondence on charging, within year tariff changes are very disruptive to users' business processes and are a particular issue for suppliers who cannot account for them in fixed price contracts. This results in increased risk on supply businesses, which may fall disproportionately on smaller new entrant suppliers. We therefore believe that any changes which have a significant effect on TNUoS tariffs should be implemented for a new charging year, which would suggest that April 2013 is the most likely date for implementation.

It would be helpful if more clarity could be provided as to how exactly the SCR will be progressed. In particular, we would be interested in understanding how the focussed workshops will operate. For example, will participants be sought by specific or open invitation? We are very keen to be involved in the process and wish to understand how we can contribute most effectively and constructively.

I hope the above views prove helpful to you in your consideration of whether to raise an SCR and, if so, how you intend to progress. Should you wish to discuss this issue further please do not hesitate to contact me.

Yours sincerely

Paul Jones
Trading Arrangements