



Charlotte Ramsay  
Head of European Electricity Transmission  
Ofgem  
9 Millbank  
London  
SW1P 3GE

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

Paul Jones  
T 02476 183383  
paul.jones@eon-uk.com

Friday 2 August 2013

Dear Charlotte,

**Integrated Transmission Planning and Regulation (ITPR) Project: Emerging Thinking**

Thank you for the opportunity to respond to the above consultation. E.ON is supportive of the aims of the ITPR Project to ensure that the regulatory framework is around the planning and development of networks remains fit for purpose going forwards. We therefore agree with the principles of ensuring that the arrangements are suitably flexible to cater for different circumstances that are likely to arise. However, it is also important that generation developers have some certainty and transparency over how the arrangements are likely to be applied to potential projects. They also wish to retain control of those projects and not be unduly affected by the actions of others over which they have no influence. Therefore, we believe that there is a balance to be struck between flexibility and certainty.

We also believe that the possibility of Multi Purpose Projects (MPPs) should not be overplayed and that designing the arrangements around them should not be a priority. Indeed providing flexibility to allow MPPs to opt out of some requirements such as OFTO tenders runs the risk of creating conflicts of interest and discrimination issues.

Our comments on the detailed questions raised are as follows:

**Question 1: Do you think we have appropriately characterised the future challenges to network development? Where do you see the main challenges? What are the long-term strategic and sustainability implications of these challenges?**

These have been largely covered yes. A key point is made in 2.7 where it is noted that "the scale of developments in network investment, timings, technical complexity, and overall build specification is uncertain". We would agree. It is therefore important to ensure that the arrangements are suitably flexible to accommodate different circumstances as they

E.ON UK plc  
Registered in  
England and Wales  
No 2366970

Registered Office:  
Westwood Way  
Westwood Business Park  
Coventry CV4 8LG

arise. However, developers also need sufficient certainty as to how their projects will be treated. They also need control over their projects and not be subject to unreasonable delays caused by the actions of third parties over which they have no influence. The arrangements therefore need to provide all of these elements which could counteract each other to certain extents in certain options for reform.

**Question 2: Are any of the review areas under ITPR more relevant than others?**

Some of the options for change in the consultation are based on a perceived need to accommodate Multi Purpose Projects (MPPs), where one transmission investment project may carry out a combination of roles including OFTO, interconnector and onshore reinforcement. We would be wary of assuming that MPPs will be commonplace in the near future. Whilst there may be a benefit in developers coordinating network build out to more than one offshore wind farm, particularly for the larger round 3 zones, the likelihood that this solution would also combine with an interconnector for instance should not be overstated.

Developers wish to remain in control of their projects which is why the developer build approach to offshore networks is so important to them. The commercial challenges associated with coordinating with other wind farms in the same area will be significant. Adding an investment required for a different purpose to the mix may be a step too far even from a purely commercial perspective. Ensuring that the regulatory arrangements are based around MPPs therefore does not seem to be a priority.

**Question 3: What are your views on the options for system planning discussed in this chapter? Are there other approaches to system planning that you think we should be considering within the ITPR project?**

**Question 4: Do you think that it would be beneficial to strengthen the role of a coordinating body working with relevant parties to facilitate efficient decision-making? In what areas could this coordinating body add most value to the process?**

We will answer these two questions together. There may be benefits in ensuring a more coordinated approach to network investment planning going forward over and above that which currently takes place. However, as we state above this should not be at the expense of developers losing control over their projects due to greater delays being introduced by third party actions over which they have no influence. We note that one potential benefit identified for a more centralised coordinated approach is that it could promote innovation in network solutions. As a general rule, we believe that centralising responsibility is likely to restrict innovation compared with opening it up to more parties.

Therefore, we believe that an enhanced role for a coordinating body should be focussed

on providing greater information to parties, including Ofgem, to ensure that they are collectively able to come to decisions which work best for them. We would become concerned if a more dictatorial role was anticipated for the coordinating body.

**Question 5: What are your views on the (real or perceived) conflicts of interest that could occur from parties holding dual responsibility in system planning and asset delivery and ownership? What are your views on potential options for institutional arrangements, separation and transparency measures to mitigate this?**

This is not necessarily only an issue related to a dual responsibility for system planning and asset delivery and ownership. Conflicts of interest can occur whenever a network company has related interests in another role. This might be a transmission owner with related generation interests, or a transmission owner with other network related interests such as in interconnection or system operation. Therefore, stringent business separation provisions must be in place to ensure that conflicts cannot be acted upon wherever they occur.

For instance, if greater flexibility is introduced whereby an incumbent transmission owner was able to coordinate with an offshore generator to create a MPP and bypass requirements to open this to competition under the OFTO arrangements, there would need to be sufficient safeguards to ensure that they did not choose to do this only when their own generation plant was involved.

Provisions as currently exist between National Grid's System Operator and Transmission Owner businesses would seem to be appropriate where greater coordination is anticipated as long as this is limited to an advisory role. A more dictatorial role would need much stricter separation measures such as full physical separation.

**Question 6: What are your views on potential future approaches to planning interconnection? Should there be increased central identification of potential interconnection that could benefit GB consumers?**

A key issue that has been identified in relation to interconnector investment is that as they are no longer subject to Transmission Use of System Charges there is no longer a signal to merchant interconnector owners on the impact that a new project would have on the national transmission systems at each end. Therefore, some form of coordination seems appropriate. It would not be appropriate for a central body to dictate where interconnection should occur, particularly if that body also had interconnection interests of its own. However, there is a role for all transmission operators (Transmission Owners and the System Operator) to identify the impacts that a proposed interconnector will have on their networks and the wider network, in order to inform decisions taken by Ofgem.

On whether interconnectors should be fully merchant, subject to cap and collar price control or fully price controlled going into the future, the key issue is that the approach is consistent across all of the links. For example, it is unlikely that fully merchant interconnection can coexist with fully price controlled links as this may remove the congestion revenue on which the fully merchant interconnectors depend. On the other hand, a fully regulated approach might be able to coexist with cap and collar regulation where the collar effectively provides a de facto regulated approach.

**Question 7: What are your views on the options for delivery of transmission assets discussed in this chapter? Are there other options that you think we should be considering within the ITPR project to address the delivery drivers and challenges identified?**

**Question 8: Do you think that it would be beneficial to introduce some flexibility in the existing regimes to provide for alternative delivery routes, where this is in the interests of consumers? If so, what criteria could be used to determine the delivery route for an investment?**

**Question 9: If we pursued additional flexibility in application of the regimes, what role should discretion play in identifying the delivery route for a particular investment?**

We will answer these three questions together.

As we mention in our response to question 1 above, it is important that the arrangements provide the correct balance of being suitably flexible to accommodate different circumstances as they arise, whilst providing certainty and transparency over how they will be applied, as well as maintaining control for generation developers so that they are not subject to unreasonable delays caused by the actions of third parties over which they have no influence. We believe that greater flexibility is most likely to be necessary within individual delivery routes, such as within the OFTO arrangements to allow more than one developer to work together to deliver a more integrated offshore network serving a number of wind farms.

The introduction of increased choice and flexibility in delivery options would be helpful, but it can also bring greater uncertainty and undermine the control that developers have over their projects if delivered in the wrong way. Different treatment of different schemes also runs the risk of discriminatory treatment occurring, so any decisions would need to be objectively argued and a form of "case law" built up so that subsequent decisions are taken on a consistent basis.

This also raises issues regarding conflicts of interest. For instance, an onshore transmission company could champion a particular onshore reinforcement solution in

order to create an MPP which would require it to be considered as the OFTO and bypass the OFTO tender process, when a perfectly valid alternative exists which does not necessitate this. Alternatively, an onshore network company could favour a reinforcement which allows it to construct a MPP that benefits its affiliated generation interests, at the expense of other generators wishing to connect in the same area.

Therefore, greater discretion brings with it the need for greater regulatory control and higher levels of transparency to the industry as to reasons why certain decisions have been taken.

**Question 10: Do you think that the case for change to current arrangements to enable more integration and coordination is material now, or may become so in the future? If the latter, when?**

As we mention in our response to question 2 above, we are less convinced of the requirement for the arrangements to change significantly to accommodate MPPs which are less likely to be necessary than the coordination of offshore transmission networks for instance. In a fragmented market there is less likely to be the opportunity for MPPs to take place simply due to the commercial and legal challenges associated with trying to coordinate the individual participants involved, even if theoretically this may seem to be the most efficient solution. Therefore, we believe that Ofgem should be cautious of designing the regulatory framework around this possibility when it has the potential to create conflicts of interest and discrimination concerns.

**Question 11: What are your views on our emerging thinking to consider further an enhancement of NGET's role as the SO in system planning to provide for a more coordinated and holistic approach across the GB system?**

As we mention in our response to questions 3 and 4, we believe that an enhanced role for a coordinating body should be focussed on providing greater information to parties, including Ofgem, to ensure that they are collectively able to come to decisions which work best for them.

**Question 12: What are your views on the emerging thinking that introducing further flexibility and applying criteria to designate whether an investment should be delivered by incumbent delivery or competitive selection could address many of the challenges and drivers identified?**

Please see our response to questions 5 to 9.

**Question 13: What other options should we take forward for consideration in the next stage of our work on ITPR?**

All options have probably been covered.

**Question 14: Do you have any views on our approach and timetable for our work on ITPR, or on interactions with related areas?**

The timetable seems challenging but this depends on the nature of the changes proposed.

**Question 15: Do you have any other views on the ITPR project not covered by these questions?**

No thank you.

We hope that you find our response of help and would be happy to discuss with you any aspect of our response further.

Yours sincerely

Paul Jones  
Trading Arrangements Manager