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

Esther Sutton
T 024 76183440
esther.sutton@eon-uk.com

Alena Aliakseyeva
Electricity Transmission
Ofgem
9 Millbank
London
SW1P 3GE

Thursday 16 January 2014

Dear Alena,

Re: CMP201 Impact Assessment

Thank you for the opportunity to respond to the above Impact Assessment. E.ON's view has not changed since the CUSC consultations for CMP201. We support this modification, particularly in light of the 2012 implementation of CMP202, removing BSUoS charges for interconnectors in line with EU Third Package requirements. We are mindful however that suppliers would need sufficient notice in order to incorporate this change into their contracts.

While National Grid's CMP201 modelling suggested that rising demand from Europe might see marginal generation increase in the UK and a consequent increase in the wholesale price to GB consumers greater than the decrease in BSUoS costs, there is considerable uncertainty over this outcome, just as the extent to which plant investment might be incentivised. Fundamentally, we do not believe that concerns over the forecast small negative impact on prices should preclude the certain improvement to competition and expected longer-term benefits that making this change could bring.

By levelling the playing field for GB generators with European competitors, facilitating cross-border trade, implementing CMP201 would be a positive move towards the harmonisation of European markets. The current lack of parity for such GB parties should not be perpetuated until such a time as European-wide agreements are reached. As far as GB itself is concerned we understand that market splitting is a possible but probably unlikely scenario, and uncertainty over European developments should not be cause to extend a situation where GB generators cannot compete on an equal footing with their European counterparts. With the Third Package requirement for national arrangements to enhance competition and progress towards a single internal market for energy, we believe that implementation of CMP201 should proceed.

In summary E.ON's views on the proposals are that:

- BSUoS risk is essentially unmanageable for both Generators and Suppliers.

E.ON UK plc

Registered in
England and Wales
No 2366970

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

- Moving BSUoS charges from 50:50 recovery to 100% from demand is required to allow GB generators to compete on an equal basis with EU competition.

- By furthering opportunities for cross-border trade CMP201 advances European harmonisation: implementation would support both efficient competition and harmonisation.

- From a generator perspective CMP201 should be implemented as soon as possible.

- From a supplier perspective, time is required to allow for the inclusion of increased BSUoS costs and risk in tariffs and new contractual agreements where BSUoS is not currently passed through. Two full charging years as proposed should suffice.

Further to these comments, our responses to the individual questions in the consultation are as follows:

<u>Impact Assessment Questions</u>

Question 1: Do respondents consider that we have identified the relevant impacts of the CMP201 proposal?

In essence yes, though it is very difficult to quantify potential impacts with any degree of certainty, as highlighted by e.g. NGET's non-comparable calculations of generator surplus and consumer costs.

CMP201 would enable GB generators to offer a more competitive wholesale price to the market, breaking down this barrier to European trade and putting pressure on generators across Europe. This improvement in competition could boost demand from Europe, although many factors influence levels of exports/imports, as acknowledged in Section 4 of the Impact Assessment.

The possibility of a transition risk seeing suppliers losing out owing to having contracts based on a forward price including BSUoS costs to generators, and/or not being able to pass BSUoS costs through to customers, should have decreased over time. This proposed modification has been on the table since December 2011 enabling parties to bear it in mind, and an earliest implementation date of 01/04/16 if a decision is reached by 31/03/14 should allow time for adaptation of the majority of contractual arrangements to reflect the changes.

With inherent volatility and ex-post calculation, BSUoS risk is essentially unmanageable for all parties; this modification would redistribute that risk but we do not believe that the overall risk premium would increase. We agree with the points noted by the Workgroup in 4.18 of the Final Modification Report that the idea that constraint revenues might partly offset BSUoS costs for some generators is essentially a red herring. Combined with the assessment of potential impact on credit cover, we agree that the impact of redistribution of BSUoS costs from generation to supply on the GB market appears broadly neutral.

We believe it is very difficult to estimate near or longer-term what the quantitative impacts on imports, exports, investment or consumer bills might be. The summary of modelling costs to customers as ‘in the region of £200m-250m’, amounting to an estimated increase of between £2.00 and £2.50 on the average annual domestic consumer bill, is also a not inconsiderable 11-12% roundup of the £178m-£237m that NGET actually forecast.

Question 2: Do respondents have any quantitative or qualitative evidence on the likelihood of additional investment in generation that would offset the relative increase in wholesale prices?

Higher returns for GB generators in the longer term if CMP201 was implemented are not guaranteed; from the perspective of E.ON in the UK, the removal of BSUoS charges from generation would be one factor among many considered when assessing options for investing in existing or new plant.

Question 3: Do respondents have any further evidence on the effect of CMP201 on supplier credit risk.

The NGET review of credit cover showing that no small suppliers were affected was reassuring; we have no further evidence on this point.

Question 4: Do respondents agree with our initial assessment of the proposal?

As per our initial comments, we believe that implementing CMP201 would be the right thing to do to support GB generators, efficient competition, and progress the EU market.

Question 5: Are there other relevant factors that respondents consider we should take into account?

We have no further comments.

If you would like to discuss this response, please do not hesitate to contact me.

Yours sincerely,

Esther Sutton
Upstream Trading Arrangements, E.ON UK