



Catherine Williams,
Head of Commercial Regulation – Electricity
Transmission
Ofgem
107 West Regent Street
Glasgow
G2 2QZ

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

27 May 2014

Dear Catherine,

Project Transmit: Further consultation on proposals to change the electricity transmission charging methodology

Thank you for the opportunity to respond to the above consultation. E.ON continues to believe that CMP213 should not be implemented.

In our last response on CMP213 to Ofgem's regulatory impact assessment, we expressed a number of concerns with CMP213 around its cost reflectivity, the quality of the Cost Benefit Analysis and the apparent inconsistency between Ofgem's view on CMP213 and that for BSC modification P229. We still consider that a large number of our points stand even in light of the new modelling in the latest consultation. We do not propose to reiterate all of our concerns in this response. However, we believe there is benefit in highlighting our main areas of concern which remain and which we believe should lead Ofgem to reject CMP213, as well as some areas where we agree with Ofgem.

The modelling shows a net cost to customers

The revised cost benefit analysis indicates that implementing CMP213 would lead to an overall increase in consumer bills, albeit a fairly modest one. Although, we accept that there are limitations associated with modelling the market in this way, especially as far out as to 2030, significant effort has been put into this over the past year and the general conclusion is that customers would lose out as a result of CMP213.

We note that Ofgem has expressed some doubt about the analysis, in particular the modelling of the EMR mechanisms and whether generators' responses to different power

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

prices have been accounted for adequately. It is suggested that these issues could be causing the modelling to overstate the cost to customers, or indeed may be preventing it from demonstrating a net benefit.

If significant doubts do remain over the modelling, we believe that the appropriate response would be to improve the analysis, to see if this changes the conclusions. Ofgem has attached a great deal of importance to numerical analysis in previous modifications. For instance, CMP201 was sent back to its working group because Ofgem believed that insufficient modelling had been carried out in order to make a decision, and the subsequent minded to position to reject the modification was heavily influenced by the modelled increased cost to GB consumers. It therefore doesn't seem consistent to dismiss the results of the analysis in this instance, or to assume that any perceived deficiencies skew the results in one particular direction.

The decision is inconsistent with that taken for P229

As we mentioned in our response to the August impact assessment, we are concerned that the minded to position for CMP213 is inconsistent with the decision to reject Balancing and Settlement Code modification P229 which sought to introduce locational transmission losses.

In the case of P229, Ofgem concluded that:

- The modification would have produced arrangements that were more cost reflective;
- The cost benefit analysis resulted in a small benefit to customers;
- There would be large distributional effects between parties, effectively creating winners and losers; and
- The arrangements could be superseded by European legislation.

On balance, Ofgem decided that given the combination of these factors the modification should be rejected.

The situation is very similar for CMP213. Ofgem believes that it is more cost reflective than the status quo. The cost benefit analysis shows that the modification would result in a small additional cost rather than a small benefit to customers. There are large distributional effects between parties mainly between conventional generation in the north and south of the system. It is also possible that future European legislation could supersede these new arrangements.

We have not seen anything in Ofgem's conclusions to date which directly addresses this point and explains why Ofgem believes that the issues in this context are relevantly different from those in CMP229, leading it to decide to implement the modification in this instance rather than reject. In our opinion, the fact that the cost benefit analysis results for CMP213 are less favourable than those for P229, should have made it more likely that it would be rejected, not less.

On the subject of European legislation, we are uncertain how the latest opinion from ACER on setting transmission charges impacts on this modification. We note that this

opinion has yet to be adopted into the relevant Regulation by the Commission, but ACER clearly states a preference for capacity based charges and is against charges based on a station's output. Therefore, if this opinion were to be adopted into a regulation, it is not clear at this point whether a capacity based charge which differs based on a generator's recent historic output would be viewed as compliant or not. Clearly, this is an important issue which needs to be addressed in any decision Ofgem makes on this modification.

Treatment of HVDC assets

Although we do not agree with Ofgem's current minded to position to implement CMP213, we do agree with its position on the treatment of HVDC assets. The main reason for this is to ensure that the treatment of HVDC assets which form part of the Main Integrated Transmission System is consistent with that of similar assets in offshore transmission networks. The decision has already been taken to include the entire cost of converter stations into the cable tariff for offshore networks. We do not believe that any arguments have been made to suggest that the onshore and offshore situations are relevantly different from each other to warrant differential treatment in transmission charging. Therefore, to do so would be to discriminate unduly between parties.

Implementation date for CMP213

If Ofgem was to approve CMP213 for approval, then we agree that it should be implemented with sufficient notice for parties to respond to the significant change in cost signals that will arise. As has been correctly identified in the consultation, generators will not be able to alter their TEC in response to a decision to implement CMP213 prior to April 2016, without breaching the required notice period under the CUSC and incurring a charge as a consequence.

What is important for generators is certainty of outcomes. This is particularly important at the moment where new arrangements are being introduced as a result of Electricity Market Reform. TNUoS charge levels will influence the costs that generators will have to recover through the Capacity Market and Contracts for Differences. Therefore generators will need clarity of the methodology to be used prior to bidding into an auction or applying for an administered contract. Therefore, an early decision date is more important than an early implementation date.

I hope you find the above comments helpful. Please contact me in the first instance should you wish to discuss this further.

Yours sincerely

Paul Jones
Upstream Trading Arrangements Manager