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Dear Mathew,

Pre Consultation Document, GB ECM-10: TNUoS Generation Zoning Criteria

Thank you for the opportunity to respond to the above consultation. E.ON UK continues to believe that it is important that the zoning criteria meet the correct balance between the following objectives:

- **Cost reflectivity** - Charges must reflect the different costs which are imposed on the system depending on generators' decisions on where to locate their plant. Moreover, charges must year on year be responsive to changes in the distribution of generation and demand on the transmission network.
- **Stability** - In order to provide an appropriate environment for investment in generation, charges should not be subject to significant degrees of change year on year.

In our response to National Grid's consultation on this issue in 2006, we concluded that the present criteria appeared to continue to provide an appropriate balance between these two objectives. However, we were one of the parties that believed that further work could be helpfully undertaken on the issues covered by this pre consultation.

Generators generally see most volatility in their charges when boundaries change and on the introduction of a new price control. Our preference would therefore continue to be to avoid undertaking a rezoning exercise too often. In general we believe that this

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should continue to take place at the beginning of a new price control period. However, we accept that there may be exceptional circumstances when this should be undertaken more frequently. We welcome National Grid's aim to define what would constitute such exceptional circumstances in the charging methodology.

With reference to the options raised in the consultation, we would agree that Option 1, where a new zone is required for a newly commissioning generator, should represent exceptional circumstances. However, we believe that it would be sufficient in those circumstances simply to add the new zone to those that already exist, rather than carry out a full rezoning exercise across the whole of GB.

The other two criteria (Options 2 and 3), whereby the commissioning of a new generator or the decommissioning of an existing generator could affect the zoning of existing generators, are more problematic. We do not feel that the commissioning or decommissioning of generators should be regarded as unusual circumstances in themselves. Instead, the definition should relate to the effect on charges that result from an event, not necessarily the event itself.

Therefore, the suggestion that rezoning would occur if one or more nodal tariffs in a zone breached the $\pm£1/\text{kW}$ criterion by more than a certain amount appears sensible. Of course, setting the level over which rezoning would occur will be subjective, just as the $\pm£1/\text{kW}$ is. However, price stability is felt by participants in terms of price levels alone rather than causes, so it would be a logical definition to use. If it is decided that the $\pm£1/\text{kW}$ should be adjusted for inflation, then it may not make sense to quote this additional amount as a nominal £ figure. Therefore, instead of say setting the level at $\pm£0.5/\text{kW}$ as suggested in the pre consultation document, it may be better to set it at 50% of the adjusted $\pm£/\text{kW}$ figure.

It may also be logical to constrain the creation of new zones within the price control period on a similar basis. Therefore, a new zone would only be created if the nodal tariff of the generator concerned breached the $\pm£1/\text{kW}$ zonal range by more than the specified amount.

In terms of the $\pm£1/\text{kW}$ criterion itself, we believe that some form of adjustment for inflation would be appropriate to maintain the relative effect of the figure. If it was not adjusted while other scheme parameters were allowed to change, then over time the zones would be expected to reduce in size and increase in number, even if there was no change in the configuration of generation and demand on the system. It would be sensible to restrict any adjustment to the beginning of each price control period. Therefore, we would support an approach that commenced at the beginning of the next price control. As the $\pm£1/\text{kW}$ is in effect an arbitrary number, it would not be sensible for it to be quoted to too high a level of accuracy once it has been adjusted. Therefore, we would suggest that the number is rounded to the nearest $\pm£0.25$ say.

In summary, we would support a definition of exceptional circumstances based on a $\pm£/\text{kW}$ value or a percentage over the $\pm£1/\text{kW}$ criterion. Inflation of the criterion itself seems sensible, but this should be restricted to the beginning of a price control period. The resultant inflated value should be rounded to avoid spurious accuracy.

I hope that the above comments prove helpful.

Yours sincerely

Paul Jones
Trading Arrangements
