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Dear Jan,

**RE: NTS GCM 06: Further Revision to Obligated NTS Entry Capacity Reserve Price Determination**

E.ON UK does not support implementation of the proposals as described by GCM 06 and our position remains unchanged to that as submitted in response to GCM 01. We do not believe that this consultation is necessary since the issue it purports to address (i.e. inclusion of “spare capacity” in the transportation model) is extraneous to, and inconsistent with, the principles of the new charging model. We disagree fundamentally with the inclusion of spare capacity in the charging model and believe that further revision is simply not required in this regard. The same debate has already run its course in the electricity industry and spare capacity deemed to be unnecessary and incompatible.

The ‘Transportation’ model (as approved by the Authority) does not seek to look exactly at how a new entry or exit point will be accommodated, but looks instead at the notional increase or decrease in usage of the system. Therefore, if an increase in capacity in reality requires a “chunk” of investment larger than a potential new entry or exit point, then this is ignored by the model. The model assumes only a “fair share” allocation to meet the calculated change in flows.

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These chunks of investment create spare capacity for subsequent users. In a similar way to the model ignoring whether actual chunks of capacity are needed to meet an increase in flows, the model also ignores whether spare capacity has been created, perhaps by a previous chunk which can meet a further increase in flows. We believe this is correct, as the model seeks only to measure and cost notional increases or decreases in flows. Accounting for spare capacity, is therefore, inconsistent with the Transportation model principles of modelling increases or decreases in flows. The Transportation model does not reflect the actual investment which is likely to be incurred on the system to meet the change in flows, but to reflect the fair share of the cost of the transmission system usage.

If our understanding is correct, including spare capacity in the transportation model in the method described by GCM 06 will lead to more variable charging levels (due to the constantly changing amount of “spare” capacity in the system; which will be further aggravated by the future implementation of capacity trade and transfer processes and resulting changes to obligated baseline levels). Any proposal that leads to less stable and less predictable transmission charging levels is unwelcome. We fail to see, as a result, how it could possibly be “in the interests of consumers to include spare capacity”<sup>1</sup>, as it will almost inevitably lead to these unexpected costs being borne by retail customers.

The methodology described in GCM 06 purports to analyse individual entry points individually. We believe this is inconsistent with zone-based entry capacity allocation, as established in setting of the current TPCR entry baselines (and as proposed by E.ON UK to extend to entry capacity trade and transfers). Indeed, acceptance of zone-based capacity allocation suggests that Ofgem/NG should perhaps be reviewing entry reserve prices not by individual entry points, but by “zone” in order to maintain overall consistency?

It is clear to us that making the changes as proposed under GCM 06 would make it more difficult for Users to replicate the charge setting process, thereby reducing some of the benefits of introducing the simpler and more transparent transportation model. We are also concerned that inclusion of spare capacity would cause a cross-subsidy, as Users at declining terminals enjoying the reserve price discount are effectively funded by Users at other entry points.

In summary, E.ON UK does not support these proposals. We do not agree with the Authority’s recommendation to include spare capacity in a charging model with which it is clearly incompatible. Any attempt, therefore, to incorporate spare capacity represents nothing more than artificial “fudging”, which will lead to fluctuating, unpredictable charges. Moreover, we do not believe there is any need to bring forward any additional refinements or alternatives to the approach suggested in

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<sup>1</sup> [Ofgem decision letter, NTS GCM 06, page 1](#)

GCM 06. It is important for industry transparency and predictability that no further changes are made to the transportation model as approved following GCM 01, unless there is clear, demonstrable evidence to the contrary.

If you have questions or queries in relation to any of the issues covered by this response, please do not hesitate to contact me on 02476 181421.

Yours sincerely

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