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Friday, 22<sup>nd</sup> February 2008

Dear Andrew,

**RE: Summary Report and Discussion Document on Entry Capacity Substitution**

E.ON UK is concerned that the highly complex issue of entry capacity substitution requires significantly more industry time and attention before detailed proposals can be brought forward.

Our position on this issue historically has been that intuitively it must be a good thing to reallocate surplus capacity from a declining ASEP to another ASEP which requires the capacity. What is very clear from this discussion paper, however, is that if we get the rules wrong, substitution will just create all sorts of perverse incentives and inefficiencies. On this basis, we have found it very difficult to answer the individual questions posed in this discussion paper. We believe that the most appropriate way forward now would be the creation of a workgroup to explore substitution in detail. However, this can probably only have any real meaning, once the baseline review has concluded and any changes to obligated levels implemented, since both baseline levels and substitution are intrinsically linked.

We would also welcome clarity and agreement as soon as possible on the current timescale for implementation of the substitution Licence obligation, since a somewhat confusing message has been sent out on this issue between National Grid and Ofgem. In terms of timescale, we would urge Ofgem to adopt a pragmatic approach and take into account the very significant issues (such as those discussed in the National Grid report) which must be dealt with before implementation can even be considered.

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I hope you find these brief comments useful, but if you wish to discuss them in any more detail, please do not hesitate to contact me.

Yours sincerely

**Richard Fairholme** (by email)  
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E.ON UK