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Friday 21st May 2010

Dear Mark,

NETS SQSS – Fundamental Review Update and Consultation Report

Thank you for the opportunity to respond to the above consultation. This response is on behalf of E.ON UK and E.ON Energy Trading

E.ON welcomes this review, at a time of significant change and investment in all parts of the industry. We note that the work has been going on for over two years, and believe that engagement of stakeholders is vital to ensure the best possible outcome for "UK plc". The scale of the review is large, as is the scope, and we recognise that this may lead to difficulties in process as well as in determining requirements. Splitting the work into a number of different streams is a sensible approach, as long as each group remains aware of the work of others and a measure of co-operation is achieved.

The work done by each of the groups appears to be highly detailed, and we are concerned about our ability to comment in the depth required. There is insufficient time to ensure that we have understood correctly before we have to respond. We have appreciated the opportunity offered by the TOs to engage with the detailed work through meetings in the last few weeks. However, in order to comment meaningfully, we require a much greater knowledge of the reasoning and logic that brought the working groups to their current conclusions. We are being asked whether we agree with the principles outlined, and if we disagree, to offer alternatives. Likewise

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detailed drafting comments are requested, including alternative suggestions. We have no wish to undermine the work of the groups, given they will have arrived at their current positions via logical process, so it is difficult to offer constructive feedback.

NGET have held two meetings; one as an introduction to this consultation; the other on the issue of intermittency of wind generation. Both were useful introductions to the main issues, but highlighted the amount of detail involved in the development of the proposals to their current state. E.ON would welcome the opportunity to participate in more such discussions, to enable us to produce a better informed and constructive response. We believe it is necessary to ensure that the industry at large is well informed, to the point where they can comment in an appropriate manner. We therefore suggest that timescales for this consultation should be extended to allow the detailed dissemination of information.

Notwithstanding the above remarks, we offer the following initial comments:-

WG 1 - International Benchmarking

E.ON supports efforts to achieve commonality with worldwide technical standards wherever possible. This enables commonality in plant specification, which leads to more economic procurement.

WG 2 - Entry and Exit

We do not support the use of TEC as a basis for the design of generation connections. TEC is a commercially variable parameter, which could change at least annually, and may in some cases with the use of different access products, vary week by week. We acknowledge that there may be cases where registered capacity is inappropriate for determining a suitable connection design. The consultation implicitly acknowledges that there are two separate considerations in connecting a power station – one being the local connection, which must be able to withstand all operating conditions of the power station it connected. The other is of the wider transmission system, where some scaling of output may be appropriate. It may be better to define two separate capacity parameters for use in the two parts of the design process. LCN as proposed still doesn't quite work,

in that it relates to maximum within year, whereas it would seem appropriate to design local assets to a maximum possible, especially given the possibility of operation under fault conditions.

E.ON supports the principle of deterministic rules whose development is based on appropriate cost benefit analysis.

Examination of Table 2.1 suggests that Generation Groups A and B could be treated as a single group, as could Groups G and H. It is non obvious how one would approach the definition of Source Fuel Load Factor – 70% is obviously important to the working group, because it acts as a threshold for change in groups C, D and F, but no justification for this choice of threshold is offered. It is necessary to understand far more about the choice of source fuel load factors, both in definition and level, before being able to offer constructive comment. The legal text suggests generic LFs for use with different technologies – it would be helpful to understand how they align with generation security contributions laid out in P2/6. Equally, if LFs are to differ site by site, it is unclear how this impacts asset planning. Another concern about this approach is who decides what the LF is to be. The whole load factor approach appears to add another layer of complexity to the process.

E.ON supports customer choice where the customer cannot chose a service lower than standard.

TEC/LCN Trading considerations should not determine connection asset investment. From our involvement in the work of the Transmission Access Review CUSC Amendments we understood that the concepts of TEC, and CEC were retained and a new term LCN was introduced. TEC refers to the capacity required on the wider Main Interconnected Transmission System (MITS) and CEC to the Connection Assets immediate to the generating units (as now). LCN refers to the local transmission assets required between the connection assets and the wider MITS, so in effect is a subset of the present definition of TEC.

We can understand how the amount of LCN requested by a generator or generators could impact on the local assets that are built to accommodate them. However, this should not determine the size of the connection assets. If a generator has requested a CEC higher than its LCN, then it is this CEC value which should influence the size of the connection assets.

Of course it is not the size of CEC, LCN or TEC alone which would determine the assets installed. The operating regimes of different generation fuel types will mean that different technical solutions are required to provide similar levels of access products. However, it should be the level of access requested by the generator which determines the amount of transmission investment that is required and the generator should ensure that this is sufficient for its needs. We do not support the proposed introduction of a load factor into the process – it potentially curtails generator access which may interfere with the efficient operation of the Balancing Mechanism.

WG 3 – MITS

The question of interaction between TAR and SQSS is a red herring in this context. The SQSS has never prohibited generation from being built in any given location, it serves to dictate the amount of infrastructure required to allow that generator to connect and generate. TAR merely means that the investment to the prescribed standard takes place after the connection of the generator rather than before it connects. The function of the SQSS should not be changed by TAR. It is not a question of precedence.

Furthermore, short term access products should only be available if the infrastructure is already built. Generation is a long term investment, as is the investment in transmission infrastructure. Transmission infrastructure investment should not be driven by short term requests for access – that really would be putting the cart before the horse.

The initial findings of Working Group 3 explain why a deterministic approach remains appropriate for the SQSS. There is always room for testing a standard against a cost benefit analysis, and it is good practice to do this check regularly. However, the Working Group has highlighted the variations and the different outcomes that are possible with a large range of input parameters, most of which are themselves subject to considerable variation.

WG 4 – Contingency Criteria

We note the inconsistency in the existing SQSS regarding the treatment of double circuits in the SPT area. E.ON supports the removal of regional variations in the criteria where reasonably practicable and supported by

any necessary further investigations.

The proposals to introduce requirements to consider the impact of certain MITS circuit breaker faults (Major System Faults), including cases resulting in unacceptable voltage rise appear to be sensible and we support further work to finalise these proposals.

We support the recommendations to clarify and align, as far as reasonably practicable, the voltage criteria across regions, particularly the revisions to upper limits based on plant capabilities.

WG 5 – Offshore Transmission

This group has considerably more work to do, and it is difficult to comment at this early stage. The example network configuration diagrams suggest it would be appropriate for the group to consider the applicability of the SQSS to interconnections, and possibly to inform themselves about the relevant provisions of the TO at the other end of an interconnector, possibly using the output of Working Group 1.

If you have any queries, please do not hesitate to contact Guy Phillips, guy.phillips@eon-uk.com 02476 183531.

Yours sincerely

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Trading Arrangements